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CONTEMPORARY SOUTHEAST ASIA

A JOURNAL OF INTERNATIONAL AND STRATEGIC AFFAIRS

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Vol. 25
2003
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Book Reviews

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ISSN 0129-797X

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Annual Subscription Rates for 2003

	Individuals (Print & electronic)	Institutions
Asia/Japan/Aust/N.Z.	US$42	US$66
Europe/North America/Africa/Mid. East	US$51	US$80
Singapore/Malaysia/Brunei	S$66	S$102

These annual rates include electronic delivery as well as the printed copy by air. *CSEA* is published three times a year, in April, August and December. Subscription orders and enquiries should be addressed to:

The Managing Editor
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace, Pasir Panjang
Singapore 119614
Tel: 68702483, 68702474 Fax: 6775-6259
E-mail: pubsunit@iseas.edu.sg

Electronic Access

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Contemporary Southeast Asia (CSEA) is indexed in the International Bibliography of Periodical Literature; International Bibliography of Book Reviews; Sage Public Administration Abstracts; Historical Abstracts (ABC-CLIO); America: History and Life (ABC-CLIO); PAIS International; Contents Pages on Asia (INSEAD); World Affairs Online; International Political Science Abstracts; Ingenta; EBSCO Publishing; Sociological Abstracts; ProQuest Information and Learning; Gale Group; and ISI Emerging Markets.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

Prospects for Controlling Narcotics Production and Trafficking in Myanmar

RICHARD M. GIBSON and JOHN B. HASEMAN

The problem of narcotics trafficking (and more recently, methamphetamine production and trafficking) in Myanmar has been a regional and international problem for decades. The issue must be approached as an economic and social problem rather than a political or military one. The approaches must be multinational and multi-discipline, taking into account the economic, commercial, political, and social issues that force the cultivation of the opium poppy and the production of illegal drugs in the Shan State. This multi-dimensional approach is preferable whether the present military government or a democratic alternative holds power in Yangon. The problems include the lack of viable alternative crops, non-existent transportation, the problem of armed gangs (whether ethnic or economic in nature), the lack of government presence, and the historical inability of the Myanmar armed forces to control the region.

Introduction

The Union of Myanmar's military government has brought upon itself extensive criticism for its undemocratic nature and violations of internationally accepted human rights. There often are reasonable grounds for that criticism. When Yangon's critics venture into the complex issue of Myanmar's drug trade, however, the same reasonableness is not always apparent. That is especially so when critics blame the ruling generals for their country's role as one of the world's major producers of illicit narcotic drugs. Myanmar's generals are

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routinely accused of promoting the drug trade as a matter of government policy. Simplistic charges of official government complicity in the drug trade overlook the underlying security, political, and economic realities that have made Myanmar a major drug production and trafficking centre. Moreover, by demonizing the Yangon government in the eyes of the international community, those charges pose an obstacle to counter-narcotics co-operation between the West and Myanmar.

Effective governing of Myanmar's drug-producing frontier areas has eluded Yangon governments since the country gained independence in 1948. Persistent post-independence insurgencies in the central part of the country seriously threatened the new Union's very existence. By the 1960s Yangon's forces had neutralized those insurgencies in central Myanmar. By the end of that same decade, however, the government was confronting a variety of stubborn insurgencies in Myanmar's frontier areas, a problem that it has failed to resolve. The legacy of those insurgencies, be they driven by political ideology or ethnic aspirations, continues its contribution to the intractability of the problems surrounding Myanmar's role in the drug trade.

Intertwined Challenges

To address successfully the drug problem within its borders any Yangon government must first impose the rule of law throughout its territory. Post-independence governments in Yangon, both civilian and military, have consistently failed to do so. To achieve that goal, a government must overcome three intertwined sets of challenges requiring simultaneous solutions. Discouragingly, it is far from clear whether any Yangon government, military or civilian, will in the foreseeable future be able to overcome these daunting challenges.

First, any central government must be able to exercise its writ throughout the country and bring an end to the ethnic and drug-fuelled insurgencies that have plagued the country since 1948. The prolonged struggle against insurgents threatening the cohesion of the Union has provided excuses for Myanmar's military to cling to political power, has emptied the government's treasury, and has impeded national economic development. Importantly, that struggle has also encouraged the drug trade. Profits from the illicit drugs trade have enabled armed insurgents for the past half century to defy central government efforts to end the state of near anarchy in the Union's opium-growing frontier areas.

Secondly, any Yangon government must be able and willing to satisfy the legitimate political aspirations of the Union's diverse ethnic minorities. Since Myanmar's independence the issue of ethnic minority

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rights has been the greatest single obstacle to political unity and, by extension, the rule of law. Failure to resolve legitimate minority political aspirations has driven many ethnic communities into rebellion. Many, in turn, have turned to the drug trade to finance their struggle against Yangon. With few exceptions, whatever political motivations held by ethnic insurgents in the beginning of their fight with Yangon all too often succumbed quickly to the drug trade profit motive as their *raison d'être.*

Thirdly, any government must offer realistic economic alternatives for people now making their living in the drug trade. Tens of thousands of ethnic minority farmers grow opium poppies because, among other reasons, it is the most profitable cash crop available to them. Although alternative agricultural crops can be grown in opium producing areas, the absence of readily available transportation and markets discourage that option. Equitable economic development in the frontier areas must accompany improved security and acceptance of political aspirations among the minorities if the drug trade in Myanmar is to be addressed effectively.

The reality of Yangon's impotence in the above three areas is likely to prevail even in the unlikely event that Myanmar receives wholehearted international community support for its counter-narcotics efforts. Although prospects for success in Myanmar are not bright, the international community should stay engaged with Yangon's rulers and encourage their anti-narcotics efforts. At the same time, that community could most help anti-drug efforts in Myanmar if it were able to bring its own appetite for illicit drugs under control.

Government Complicity? A Reality Check

One charge against the soldiers in Yangon is that the government actively encourages narcotics production and trafficking in return for a share of the profits. Those proceeds are in turn, the charge goes, used to finance the *Tatmadaw*'s impressively large military buildup of recent years.[1] Such behaviour on the part of Yangon's rulers would make little sense. The People's Republic of China (PRC) is the primary weapons supplier to the *Tatmadaw.* It is also a neighbouring country adversely affected by the regional drug trade and spread of HIV/AIDS centred in Myanmar. It is unlikely that the PRC would tolerate Yangon's support of something so damaging to China's own society, regardless of possible political or economic profit from the arms trade. Official complicity in the drug trade would also be counterproductive to Yangon's own best interests as it wrestles with its own growing drug-related domestic problems. More concretely, however, officials of both the U.S.

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Department of State and the Drug Enforcement Administration (DEA) have confirmed to the authors what they say publicly — they know of no evidence to support charges of state-sponsored drug trafficking in Myanmar.

A second motivation put forward for the alleged complicity of Yangon's military government in drug production and trafficking is simple greed. There are strong suspicions in international drug enforcement circles that more than a few senior government officials in Myanmar are profiting personally from the illicit drug trade. That may well be true, although proving it in a legal sense may be impossible. If true, such corruption should be no surprise. As in many parts of Asia, Myanmar's government officials are so poorly paid that all forms of corruption, drug and otherwise, are a common problem for both bureaucrats and the system in which they work.

Yangon's military rulers have acknowledged publicly that official corruption is a problem for the government. The government has taken measures to control that corruption regardless of their effectiveness. It remains to be seen if Myanmar will be any more successful in that respect than have been its neighbours. Military and police officers are certainly in positions from which they can profit, either by simply looking the other way or by actively participating in the drug trade. The authors have no doubts that this is a serious problem at all levels of Myanmar's current government and will continue to be so under future governments, regardless of whether they are military or civilian.

The potential for collusion between the security forces and drug traffickers is particularly strong in the case of Myanmar's nearly autonomous regional military commanders. Their tactical units are often deployed in locations where drug-trafficking insurgents are often better armed and militarily stronger than the government forces. Such circumstances make co-operation rather than confrontation even more attractive. The authors have seen similar situations on the Thai side of the border all too often. The opportunity for personal profit from drug-related corruption is great and many soldiers and policemen undoubtedly take advantage of it. Myanmar officials have no monopoly on drug-related corruption. It is a criminal problem in all nations, including the United States and other Western democracies.

On the other hand, Yangon clearly tolerates the drug trade in order to maintain an uneasy peace with armed drug-trafficking insurgent groups. The government also welcomes financial investment from those same organizations, with few questions asked about the origin of the money. Clearly, the generals' cease-fire arrangements with drug-trafficking warlords are obstacles to solving the drug problems in Myanmar. The objective of those agreements, however, has not been to

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encourage the drug trade. Rather, it has been to stop the debilitating drain of blood and treasure in fighting multiple insurgencies without an end in sight. In historical terms, co-operation with the trafficking insurgent groups is an inevitable outcome of political and socio-economic forces that have plagued the Union of Myanmar since its creation. However questionable that co-operation is, it must be placed in the context of the security, political, and economic challenges facing any Yangon government.

Security Challenges: A History of Failure

First seen as a "Western" problem, Southeast Asian drug production was by the late 1970s recognized as a threat to Asian societies too as they began to wrestle with their own domestic drug-abuse problems. Despite general agreement that something must be done about the drug problem, the world community has thus far been unable or unwilling to convert that consensus into effective action in the case of Myanmar — or, it should be noted, anywhere else. Instead, Myanmar is a country isolated and criticized by the international community for a variety of human rights abuses and narcotics control issues. That isolation and criticism have failed to impede a worsening of the illicit drug situation in Myanmar and the neighbouring countries. Indeed, Western policies of imposing economic sanctions have to some degree exacerbated the drug problem in Myanmar by denying that country the economic support it needs to provide economic alternatives to those in the drug trade.

Yangon governments dominated by ethnic Burmans have for years tried and failed to bring under control drug trafficking in Myanmar. Since General Ne Win seized power in 1962, successive military rulers have, in their own ways and with varying degrees of success, sought to curtail the country's illicit drug traffic as a means of weakening anti-government insurgent movements and preserving the Union.[2] Prolonged struggles against insurgents threatening the cohesion of the Union have provided excuses for Myanmar's military to cling to political power by claiming to be preserving the Union. Counter-insurgency campaigns have wasted the government's treasury rather than using it for national economic development. Profits from the illicit trade in opium, heroin, and, most recently, methamphetamine have enabled armed insurgents for the past half century to successfully defy central government efforts to end the anarchy in opium-growing frontier and ethnic minority areas of the Union. The present military government, like those before it, understands fully the symbiotic relationship between drug profits and Myanmar's insurgent armies.

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Opponents such as the Chinese Nationalist Kuomintang army, dangerous communist insurgents, drug warlords such as Lo Hsing-han and Chang Chi-fu (aka Khun Sa), and shifting coalitions of ethnic Shan insurgents have all challenged Yangon's authority at times during the more than five decades of Myanmar's independence. A common thread in that story has been the reliance of those armies upon the illicit drug trade for their financial support. Narcotics trafficking even detracted from *Tatmadaw* efforts against the few insurgencies not fuelled directly by drug money. Fighting the drug-supported armies consumed resources that could otherwise have been directed against, for example, the Karen National Union (KNU), a long-running insurgency generally believed to be free from the taint of drug trafficking.

In 1972, the United States began to provide material assistance to what had been a unilateral Yangon effort against its drug-trafficking insurgencies. Yangon accepted Washington's offer of helicopters, fixed wing aircraft, communications equipment, and other non-lethal items to be used against the drug trade. United States–Myanmar counter-narcotics co-operation continued until 1988, when Washington terminated its support in retaliation for human rights violations and the suppression of Aung San Suu Kyi and her democratically elected National League for Democracy by the *Tatmadaw*'s State Law and Order Restoration Council (SLORC).

Critics of the U.S. assistance programme welcomed the decision. They had long charged that American-supplied equipment had been used for purposes other than narcotics suppression (for example, in combat operations against the KNU) and that the government's annual dry-season operations against drug-trafficking insurgents did little good in a long-term, strategic sense. Supporters of the programme, including the DEA, observed that some effectiveness was better than none and advocated continuing U.S. counter-narcotics programmes with the Yangon authorities. Congress and the administration in Washington were unmoved by that argument. Although the DEA is allowed continued low-level contact with its counterparts in Yangon, the extent of bilateral co-operation is limited.

In a practical sense, by 1988 the U.S.–Myanmar counter-narcotics co-operation programme had lost its punch. Direct U.S. assistance had supported the eradication of opium crops, interdiction of drug shipments, and suppression of drug-funded insurgencies. With that help, during the 1970s and 1980s Myanmar's armed forces scored several initial tactical victories. As the 1980s progressed, however, the traffickers adjusted to the government's tactics and *Tatmadaw* suppression drives were running out of steam. By 1988, U.S.–Myanmar

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anti-narcotics co-operation was yielding scant results and Myanmar was home to the world's largest heroin production.[3]

The *Tatmadaw*'s suppression campaign against drug trafficking was clearly stalemated even before the SLORC came onto the scene. Yangon had lost its drug war. Myanmar's experience had demonstrated that suppression alone, without sufficiently addressing ethnic minority political aspirations and providing economic development, was not enough for success. Of course, Myanmar is not alone in that circumstance. The authors know of no major drug-producing countries where law enforcement and military suppression efforts, however vigorous, have succeeded in the absence of effective programmes to meet ethnic minority political aspirations and economic development needs.

Worse was to come. Between 1988 and 1997 opium cultivation in Myanmar spread to more than 180,000 hectares (one hectare is 2.471 acres).[4] Following the peak year of 1997, acreage devoted to opium poppy declined precipitously, largely because of severe drought rather than government intervention. For the 1999 and 2000 crop years, the area of Myanmar under opium cultivation declined to some 89,500 hectares, half of the figure for 1997, primarily because of adverse weather conditions in the Shan State.[5] That decline in production, coupled with an increase in opium production in Afghanistan, moved Myanmar down to second place from its former distinction as the world's largest heroin producer.[6] Heroin production in 2001 totalled no more than 865 metric tons, a decline of more than 20 per cent from a year earlier, and barely one-third of the 2,560 metric tons produced in Burma in 1996.[7] Production declined further in 2002, and opium production is now estimated at only about 630 metric tons — about one-quarter the level of 1996.

Myanmar's traffickers, meanwhile, supplemented their heroin product with methamphetamine to meet the new demand from overseas as well as in neighbouring countries for new "cocktail drugs" that are widely distributed in Southeast Asia and transited to Western markets. While the production of heroin declined between 1997 and 2000 because of adverse weather conditions, it recovered sufficiently in 2001 to reinstate Myanmar as the world's largest producer of heroin (Afghanistan held this dubious distinction from 1998 through 2000). New figures produced by the United Nations suggest that production in Myanmar again declined in 2002.[8]

In 1989, Yangon's military government did what many of its critics had long demanded. After three decades of unsuccessfully trying to suppress Myanmar's insurgents through military force, the generals

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largely stopped trying. The post-1988 SLORC government in Yangon initiated a series of cease-fire agreements with the warlord armies that still dominate the drug trade in Myanmar.

The 1989 splintering of the Burma Communist Party (BCP) into the United Wa State Army (UWSA) and the Kokang Chinese Myanmar Democratic Alliance Army (MDAA) gave the Yangon government an opportunity to neutralize, at least temporarily, the country's largest and most powerful drug-trafficking insurgency. Yangon's generals quickly negotiated cease-fire agreements with those two major BCP-successor groups, setting a pattern for subsequent agreements with most of the government's other armed opponents. In return for suspension of their armed conflict with the central government, Yangon granted the trafficking groups a modest degree of economic development assistance. More significantly, the generals granted their opponents a large degree of political autonomy and economic freedom. Unfortunately, that economic freedom has translated into *de facto* licence to traffic in drugs.

Myanmar's drug armies now operate as they did before the cease-fire agreements, as virtually autonomous power centres in the opium-growing areas of the Shan State. The major difference is that now such autonomy is formalized and the fighting has stopped. In the case of the UWSA, militarily the most powerful of the drug armies, the *Tatmadaw* is still not able to station troops in Wa-controlled territory. The UWSA permits Yangon's armed forces to enter Wa territory only after advance notification. In other cases, such as that of the Kokang Chinese MDAA, Yangon's armed forces are stationed within drug army territories but make no apparent effort to interfere with the commercial activities of the local drug armies. Those drug armies freely and, in effect, openly ply their drug trade as the *Tatmadaw* stands by. Ending armed conflict appears to have a higher priority among Yangon's generals than does suppressing the drug trade. Before the cease-fire agreements, the government could do neither. At least Yangon now has relative peace within the Union.

It is open to question, however, just how big an impact Yangon's recognition of the *de facto* free rein enjoyed by insurgents in their areas of control has actually had on the drug trade. Relying upon the *Tatmadaw*, the government had been unable to suppress the drug business in those same areas even when it was trying to do so. Western diplomats and informed local residents in Yangon acknowledge privately that renewed fighting between the *Tatmadaw* and the drug-trafficking armies may prove inevitable when the government believes it is strong enough to resume its mission of unifying the Union. Perhaps so, but such warfare could lead to an uncertain outcome under present

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circumstances. Yes, the *Tatmadaw* has gotten militarily stronger, but so have the still flourishing trafficking armies. The unintended consequences of renewed fighting could well include regional destabilization and/or intervention by the neighbouring states — prospects that should give pause for reflection and caution all around.

The realities of Myanmar's precarious position relative to the trafficking armies explain in large part Yangon's reluctance to take a hard line and move vigorously against the drug commerce of those insurgents. Government authorities, the police and military, can and do nibble at the edges of the drug trafficking. They cannot, however, have a significant impact on that trade in the geographic areas controlled by the trafficking groups. Yangon understands that suppressing the drug trade is in its own long-term best interest. That does not mean, however, that Yangon necessarily accepts that suppressing the drug trade is in its best short-term interest if it also means renewed warfare with the powerful drug-trafficking armies.

Political Challenges: Thwarted Ethnic Aspirations

Unfulfilled political aspirations of the Union's myriad ethnic minorities are at the heart of Myanmar's insurgencies. To govern its ethnic minority areas with legitimacy, any Yangon government must be able to satisfy those aspirations. Since Britain's departure in 1948, the issue of ethnic minority rights has been the greatest single obstacle to political unity and, by extension, the rule of law under a central government. Frustration with the determination of ethnic Burmans to dominate the Union at the expense of its minorities has driven many of Myanmar's ethnic communities into rebellion. Unfortunately, illicit drug profits have proven to be a corrupting influence on those insurgencies. With few exceptions, the political ideology that may have originally motivated the insurgents eventually succumbed to the drug trade profit motive as the group's *raison d'être.*

Satisfying legitimate political aspirations of the ethnic minorities within the Union may well be beyond the practical capabilities of Yangon and the international community combined, regardless of what kind of government rules Myanmar. Critics of Yangon's current military rulers generally maintain that a democratically elected government would quickly move to satisfy minority political aspirations. In so doing, this argument goes, a democratic government in Yangon would be able to bring an end to the insurgencies and reduce significantly Myanmar's role as one of the world's major producers and exporters of illicit drugs. Accepting that argument requires a difficult leap of faith.

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Clearly, a democratically elected government in Yangon would be a more politically attractive recipient than would be the current military government for counter-narcotics co-operation and economic development funds from the international community. The United States and other nations would presumably even be encouraged to resume direct law enforcement assistance to Myanmar's drug control efforts if a democratically elected government were to be in place in Yangon. Potential international financial and technical assistance notwithstanding, prospects of a democratically chosen government bringing the country's drug trade under control are no more certain than those under continuing military rule. A democratically elected government in Yangon would still confront the same major security, political, and economic challenges that have defeated Myanmar's rulers to date — British colonial administrators, elected civilian parliamentarians, or soldiers.

In addition to providing sustainable economic development, any Yangon government will have to address the political aspirations of all the Union's minorities, and not just those with guns. A meaningful degree of local autonomy sufficient to satisfy those minorities is something unlikely to be given willingly by any Yangon government. To do so would risk, in the minds of the majority ethnic Burmans, the end of the Union, a prospect few Burman politicians would likely relish. The current situation in Myanmar is instructive.

The armed trafficking groups putatively representing ethnic minorities now exercise *de facto* political autonomy, including control over large parts of the country. They won that authority with their guns. They subsequently have refused to spike those guns and become law-abiding farmers and merchants. Instead, the drug armies have increased their drug commerce. Even if some might interpret ethnic autonomy as the right to be ruled by drug-trafficking warlords of a particular ethnic group, it is unlikely that the rest of the world would do so. Yangon's generals have demonstrated that they can generally ignore what the rest of the world wants. A democratic civilian government would find that more difficult. International opinion would almost certainly pressure it to ensure that democracy accompanies any meaningful autonomy given to the ethnic minorities.

Were some degree of governmental autonomy to be granted under a democratic government in Yangon, the populations of new autonomous regions would presumably want to select their own leaders. Those leaders would unlikely be paragons of democratic virtues. Given the powers wielded by the armed insurgents in many of the potential autonomous states, such as the Shan, Kokang, and Wa areas, it would prove exceedingly difficult to keep today's armed and powerful warlords

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from calling the political shots under any form of regional autonomy. The drug armies would likely be able to coerce local populations into selecting their leaders as officials of several of the new autonomous regions. Indeed, this has in large measure been the practical outcome of several of the *de facto* autonomy arrangements concluded as part of the government's current cease-fire arrangements with groups such as the Wa, Kokang, some Kachin, and other trafficking groups.

In the unlikely event that coercion failed and a leadership not approved by the drug warlord armies were to take office, those new leaders would be hard-pressed to govern. They and their new autonomous regions would find themselves hostage to the same drug armies that have so successfully defied the *Tatmadaw* to date. It is unreasonable to think that these trafficking groups would accept peacefully their exclusion from official power. Outsiders seeking agreement to implement counter-narcotics programmes could well find themselves in the position of having to negotiate their anti-drug and economic development programmes with the same drug warlords who have controlled local narcotics trafficking for years.

There is no guarantee that any central government would be able to negotiate what it would accept as satisfactory local autonomous arrangements with ethnic leaders who have for so long been directing armed insurrection against Yangon. Equally uncertain is the degree to which the international community at large would accept any such arrangements with those drug lords. Working with ethnic leaders of dubious drug-trafficking backgrounds who do not adhere to democratic principles would be problematical to potential donor nations and international organizations. Leaving aside the issue of narcotics, there is no certainty that even those major ethnic groups not directly involved in the drug trade, such as the Karen, would adopt a large degree of democracy were they to be given autonomy.[9]

Granting meaningful political autonomy, as opposed to simple cease-fire agreements, to the Union's ethnic minorities would also require Yangon's leaders to exercise sufficient flexibility to modify a decades-long policy of insisting upon strong central government control over ethnic minority regions. Providing the right degree of oversight combined with sufficient regional autonomy to satisfy the ethnic minorities would prove a difficult challenge. There is unlikely to be a single solution satisfying all minorities equally because of the complex questions of fairness and political evenhandedness.

For nearly forty years, apart from cease-fire negotiations with drug-trafficking armies, there have been essentially no meaningful talks on autonomy issues between the central government and Myanmar's ethnic minorities. A renewal, on a serious basis, of any such negotiations

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would be fraught with political uncertainties for any Yangon government, military or civilian. As the government and the country's minority groups grapple to answer the myriad questions about the degree of autonomy acceptable to both sides, concessions made to one minority group are certain to be demanded by all others, no matter how impractical they would prove to be in the final analysis.

Myanmar is a country with well over 100 identifiable but intermingled minorities living alongside one another. Reaching agreements as to which groups get their own regional autonomy and which will be forced to live as minorities within geographical areas dominated by larger ethnic groups would be a staggering challenge. The Shan State is a good example of this conundrum. Logically, one could argue that the numerically dominant Shans should have an autonomous state of some kind. Were that to happen, guarantees would have to be worked out to satisfy the political aspirations of the scores of smaller minority groups co-mingled within the boundaries of the Shan State.

Regardless of the composition of Yangon's government, civilian or military, reaching a political settlement with the Union's ethnic minorities would not be an easy task, given the historical baggage that each side would bring to the table. The Union's ethnic minorities generally resent the ethnic Burman majority. The government in Yangon would need to have at hand some sort of force to encourage agreement should a negotiated settlement prove elusive. That force would almost certainly be, in some form or another, the *Tatmadaw* as the muscle to back up the government's negotiating positions.

The *Tatmadaw*, the only armed force in Southeast Asia that has expanded significantly in numbers during the past decade, would presumably be reduced in size and have its budget curtailed under a civilian government. Even with its expanded strength, the *Tatmadaw*'s power is limited. It has been forced to acquiesce in allowing virtually all of the ethnic insurgent forces with whom it has reached cease-fire arrangements, including the drug armies, to retain their weapons and command of troops in areas under their control. That is a remarkable admission of the *Tatmadaw*'s inability to assert national sovereignty over large areas of its country. It is unlikely that a smaller *Tatmadaw* could do any better than the current large one.

Any potential *Tatmadaw* role, however, would be tempered by recognition that force alone has not succeeded in resolving this issue in the past and that force alone is unlikely to achieve a solution in the future. Given the mistrust of ethnic minorities towards the *Tatmadaw* because of its past abuses, any hint that Yangon would use its armed forces to help bring about a settlement of autonomy issues would in

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itself be problematical to the process. Compromises would be necessary, and they would have to be accompanied by solutions to long simmering political and economic issues on a parallel track. In the absence of such a successful welding of security, political, and economic solutions, it is far from clear whether a democratically elected government in Yangon would prove any more able than the current military government in dismantling the country's drug armies.

Economic Challenges: Development, One Way or Another

Attracting capital for national economic development has proved another priority more important to Yangon than continuing its once seemingly interminable and debilitating efforts to suppress the drug trade. Given the country's basic poverty and the economic sanctions imposed upon it by the United States and others, Yangon has not been fastidious about the origins of that investment capital. Myanmar's lax banking and commercial laws have encouraged the laundering of drug profits, a major source of capital and infrastructure investment during the past decade. The stories of Lo Hsing-han and Khun Sa are examples.

Yangon authorities in the late 1960s and early 1970s jailed one-time drug warlord Lo Hsing-han for, interestingly, insurrection rather than drug trafficking. Lo was eventually released, and rehabilitated in government eyes. He became an important ally of the military government. As the government's key negotiator, Lo used his contacts with the Kokang elements of the BCP to play a crucial role in negotiating an end to their mutiny that sparked the BCP's 1989 dismemberment. Today Lo and his family are major investors in legitimate businesses and infrastructure projects, although many critics say that the Lo family investment funds come from the drug trade.

The 1996 negotiated surrender of Khun Sa, who succeeded Lo as the Shan State's drug kingpin in the 1970s and 1980s, largely eliminated another insurgent force. It also served a useful economic purpose for the government. Today Khun Sa and his associates live in Yangon under the generous terms of their surrender agreement. They too, like the Lo family, are now influential businessmen and major investors in Myanmar's legitimate economy. Again, there is widespread speculation by critics that Khun Sa's money is tainted by the drug trade. To the government's disappointment, however, many of Khun Sa's former followers refused to accept the surrender terms. They instead transformed themselves into a new version of the Shan State Army (SSA), which today is one of only a few insurgent armies still fighting against the *Tatmadaw*.

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Should Myanmar's military continue to dominate the Yangon government it is likely to take some time to arrange mutually acceptable compromises on human rights and other issues — steps that would be necessary to attract any meaningful level of foreign developmental assistance from the West. A democratically elected government in Yangon would be far more likely to attract foreign development assistance than would the country's current rulers. Even so, it is unclear whether the world community would be financially able (even if it so wished) to fund the massive levels of development assistance required for a material transformation of Myanmar's opium growing areas.

Controlling the Southeast Asian drug trade is likely to require a lot of time and money as well as sensible policies on the part of all concerned. That is not a prospect likely to give solace to those who, for political or other reasons, seek a near term, quick fix to what may well prove an intractable problem. A quick fix to a problem that has developed over several generations is unlikely to happen. The international community may well not have the required patience and staying power for a long-term development strategy while drugs continue to flow out of Myanmar.

In many of Myanmar's ethnic minority regions, opium is for most farmers the only economically viable crop. Any successful Yangon government must, therefore, make the political decision to give priority to the development of the frontier regions. Given the limited resources likely to be available to Yangon, that would probably require de-emphasizing pressing developmental needs in other parts of the country's heartland populated primarily by ethnic Burmans or minorities not involved in the drug business. That would pose a challenge for either a civilian or a military government and may not be politically workable.

In a civilian government, ethnic Burman politicians would presumably have a national parliamentary majority. In any nascent democracy established in Myanmar, ethnic Burman politicians would face difficult political choices. They would not relish channelling limited economic development funds disproportionately to Wa, Shan, Kachin, and other minority groups viewed with disdain by ethnic Burmans. That pursuit of national over parochial interest has been rare with the current military government, a government not beholden to constituent groups looking forward to the next round of elections. It would likely be even more rare under elected civilian leaders. Once again, as with autonomy issues, the fairness question arises. Two of the largest minority groups in Myanmar, the Karen and the Mon, are generally not involved in the narcotics business. They would likely be dismayed at any diversion of economic development from their own people in order to fund development programmes for drug-trafficking groups.

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Thailand, Myanmar's neighbour, too was once a significant producer of opium and heroin. Northern Thailand was home to an active communist insurgency that drew recruits from ethnic minorities, or hill tribes, and some of the same drug warlords are now operating only on the Myanmar side of the border. Thailand remains a major smuggling route, but its illicit drug production has largely been shut down through economic development combined with judicious law enforcement and social development measures. The key ingredient has been major economic development, offering northern Thailand practical alternatives to the drug trade. Similar economic development in Myanmar would make a significant impact on drug production in that country as well. Here again, the prospects of that happening any time soon are not bright in the absence of major economic assistance.

Policy Issues

Realistically, there is perhaps little the United States or any other country could have done to prevent the post-1988 expansion and changed nature of the drug trade in Myanmar. Domestic events and forces in Myanmar beyond the ability of any outside country to influence constructively drove that growth and change in the drug trade. Even with massive support from the United States and other Western countries, the problem would not have been completely solved. Nevertheless, a reasonable argument can be made that continued U.S. engagement with Myanmar on narcotics control issues might have ameliorated the worsening of the drug problem by encouraging more active engagement of other Western nations and supporting greater efforts on the part of Yangon.

Instead of working with Yangon, however, Washington largely contented itself with criticizing the military government's human rights and counter-narcotics efforts. Washington imposed strict political and economic sanctions on Myanmar, actions that had little practical result other than to make the generals more intransigent than they might otherwise have been. Ironically, such sanctions in turn have weakened Yangon's ability to address the drug trade issue on its own. Yangon faced a stark choice. The generals could knuckle under to U.S. and Western demands that would have spelled their political downfall as the price for small amounts of trade and modest levels of economic assistance. Even then they would still have faced intractable, drug-fuelled insurgencies. The alternative was to remain aloof from foreign demands, hold on to power at home, and come to terms with the drug armies that had repeatedly proved too strong for the *Tatmadaw* to defeat militarily. The generals chose the latter path. Washington's

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approach to the Myanmar drug problem has thus left the United States open to charges of being part of the problem rather than part of the solution.

The generals have continued attempts to curtail illicit drug production, although efforts in that direction have been restricted to the margins of the larger problem. Unilateral *Tatmadaw* opium eradication operations since 1997 have reached an average estimated at 10 per cent of the land area under cultivation. This is not a bad figure except that it has been restricted largely to areas outside the main growing areas controlled by the trafficking armies. A continuing factor in Yangon's drug control efforts has been the influence of domestic political priorities that blurred distinctions between eradicating crops, co-operating with producers, and co-existing with the seemingly intractable problems posed by the drug-financed insurgent armies.

The *Tatmadaw*'s limited effectiveness against the trafficking groups and growers has reflected the mistaken belief that armed suppression and interdiction alone can suppress the drug trade. Force alone simply did not work. If anything, it may even have been counterproductive. Used in isolation, force addressed only security issues and ignored the ethnic minority political aspirations and the need for economic development. While military operations in ethnic minority areas may have weakened some insurgencies in the short term, they had the unintended consequence of exacerbating anti-government sentiments and economic dislocations among the already poor local populace.

The United Nations, through its international Drug Control Programme (UNDCP), has remained engaged with Yangon's military governments in joint efforts to address the drug trade in Myanmar and the neighbouring countries. The UNDCP's major presence in Myanmar is in the southern Wa area and around the eastern city of Kyaingtonge (Kengtung), where ongoing projects emphasize agriculture, road building, water and sanitation, and community development.[10] The UNDCP's emphasis on economic development offers the potential for greater long-term effectiveness than does suppression used alone. The chances for success of the UNDCP's approach are, however, problematical, especially if funding shortfalls prevent expansion into increasingly large areas of the Shan State and other opium-producing areas.

Disappointingly, although in fairness perhaps unavoidably, the UNDCP's economic development projects appear likely to continue forward in isolation, addressing only the economic development challenge. The parallel challenges presented by ethnic minority political aspirations and the continued prospering of drug-trafficking armies are not being addressed effectively in the UNDCP package.

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Future Steps

The outlook for Myanmar, either alone or with international help, to bring its drug-trafficking problem under control any time soon is far from encouraging. Perhaps most discouraging of all is the query, "and then what?" One must ask whether any success in addressing Myanmar's drug production would in any way actually help alleviate the West's drug problems. Producers in Afghanistan, Mexico, Colombia, and other countries will always be ready to step into the marketplace to see that world drug supplies meet the demand generated by drug abusers in the West and elsewhere.

The Yangon government is the only entity capable of taking the necessary political and military steps to address simultaneously the challenges of ethnic minority aspirations and security issues. Yangon is, however, unlikely any time soon to have either the means or the will to take such steps on its own. It will need help. From a narcotics control perspective, there should be an international community of interest in seeing Yangon succeed in such an effort to help reduce the flow of illicit drugs from Myanmar into the international marketplace. In its own self-interest, Myanmar needs to meet successfully the above challenges if it is to govern effectively its national territory. The question is when, and how, will Myanmar be able to do so?

Yangon, in particular, needs the international community's financial and political support to grapple with its political–military challenges as well as those of economic development. Neither challenge can be addressed in isolation from the other, making it essential to tackle a variety of them simultaneously. Yet the international community is rightly wary of getting involved in either challenge at this point. Western insistence upon the preconditions of political reform and respect for human rights in the face of Yangon's intransigence on those issues will likely continue to block large amounts of international financial assistance. Left unresolved, the stalemate over human rights and democratic reforms will continue to handicap the UNDCP effort by ensuring that it remains under-funded.

There is much to be discouraged about when looking at the prospects of effective narcotics control in Myanmar. Does that mean that the effort should be abandoned? Not at all. It does, however, mean recognizing the complexities of the problem and adopting realistic approaches towards what is achievable and what is not. We must start by accepting that the current political, economic, and military conditions within Myanmar make it unlikely that any serious reduction in the illicit drug flow out of that country will be achieved in the near future.

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International demand and Myanmar's illicit drug production are two sides of a coin. Significantly, suggestions by Yangon that the West must attack the problem of its own demand for narcotics as an essential step in allowing Myanmar to bring its drug problems under control illustrates the dilemma both sides find themselves in. The West is not likely to implement the socio-economic measures needed to resolve the underlying conditions that feed drug abuse in their societies. For its part, Yangon has shown little indication that it is ready to take on the difficult political and military challenges of dealing flexibly with long-term political and economic aspirations of the Union's minorities and the dismantling of the drug-trafficking armies. Until one or the other changes, not much will be accomplished towards reducing and controlling Myanmar's drug production.

Circumstances and policies may, however, at some point evolve to where meaningful progress might be possible in addressing the drug-trafficking challenges facing Yangon's rulers and the international community. The United States and other concerned nations should pursue a constructive dialogue with the Myanmar Government, both to hasten that evolution and to be in a position to help when that time comes. That approach should encourage Yangon's own drug-control efforts, whether effective or otherwise, and avoid needless confrontation. This does not mean that the United States should any time soon participate again in bilateral enforcement or suppression programmes of the kind once sponsored. Until Yangon, regardless of who holds political power there, is ready to tackle seriously all three of its drug-related challenges simultaneously, such U.S. involvement would be premature.

For the time being, engagement by the United States and the rest of the international community should be exercised through the offices of the United Nations and other international organizations politically acceptable to Myanmar. Admittedly, the United Nations approach for the moment promises little more than progress on the margins of the problem. It does, however, provide a vehicle for creating an environment more conducive to effective drug-control efforts, particularly through engaging the current Yangon government in discussions on the drug problem.

By staying engaged through the United Nations, the United States and other concerned governments can position themselves to join Yangon and possibly move aggressively against the drug problem at some future time. In the meantime, given the extent of the drug problems faced, it is not effective to place unrealistic demands and expectations on Yangon governments — whether military or civilian — either now or in the future. The West must also recognize the economic reality that

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where there is demand there will be supply. The United States and other major drug consuming nations need to reduce the demand for illicit drugs within their own societies. That course offers a far better chance of success that does clinging to the hope that the flow of drugs from Myanmar and elsewhere in the Golden Triangle will be halted at its source if only Yangon's ruling generals can somehow be replaced by civilian democrats.

NOTES

1. *Tatmadaw* is the Burmese language word for the armed forces. It includes all three branches of the military services.
2. An excellent study of Myanmar's post independence efforts to deal with narcotics control is found in Ronald Renard, *The Burmese Connection: Illegal Drugs and the Making of the Golden Triangle* (Boulder and London: Lynne Rienner Publishers, 1996).
3. Afghanistan has overtaken Myanmar as the world's largest producer of illicit opiates, in large part because of recent drought conditions in the Shan State. Myanmar retains the potential to again surpass Afghanistan should climatic conditions improve. Meanwhile, Myanmar has become a major producer of illicit methamphetamine.
4. U.S. Department of State, *International Narcotics Control Strategy Report, 1999.*
5. Ibid.
6. Ibid.
7. U.S. Department of State, *International Narcotics Control Strategy Report* — 2001.
8. *Jane's Sentinel — Myanmar, Section 7.7.1 (Internal Affairs)*, February 2003.
9. U.S. Department of State, op. cit. The Karen ethnic group has been in rebellion against the central government since the country gained independence in 1948. Although the Karen have not been known for drug trafficking, neither has the religiously divided group's leadership been noted for its adherence to democratic principles.
10. UNDCP Representative Richard Dickins to R.M. Gibson, 21 April 1998, in Yangon.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

The Politics of Economic Restructuring in Vietnam: The Case of State-owned Enterprise "Reform"

MARTIN PAINTER

State-owned enterprise (SOE) reform is a key element in the Vietnamese Government's programme of doi moi, *under which marketization and integration into the global economy are occurring. However, party policy prescribes a continuing strategic economic role for SOEs. "Equitization" is confined mainly to smaller or loss-making enterprises, while the state sector is undergoing various forms of "commercialization". Many observers, particularly advocates of privatization, note the slow implementation and apparent incoherence of restructuring policies since 1987, and point to "reform failure" and a "weak state". On the contrary, the state is successfully managing a complex domestic political process in which state business interests defend their commercial privileges against unwelcome restructuring proposals. At the same time, central state actors are deflecting demands from international donors for more rapid reform, while using aid and technical assistance to strengthen state control. In the process, a considerable degree of commercial restructuring seems to be taking place. Apparent gaps in hierarchical control and policy incoherence mask a situation in which a variety of state and party actors with conflicting interests find mutual accommodation within a broad framework of party-sanctioned policy settings.*

Introduction

The aim of this article is to outline the nature of the influences and

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forces that are shaping the direction and pace of state-owned enterprise (SOE) reform in Vietnam.[1] The purpose of this analysis is to assess the capacity of the political leadership in Vietnam to shape the direction of structural reform more broadly during the process of transition, in the face of both external pressures and internal tensions and contradictions. Vietnam is run on democratic centralist principles under the leadership of the Communist Party of Vietnam, pursuing a policy of transition to "market socialism". The economy is being transformed from one that was officially managed by the state to one that is increasingly driven by global and domestic market forces. This is the result of a deliberate strategy of "renovation", or *doi moi*, which has been pursued since 1986 and is continually reaffirmed.

Vietnam is a poor country with a need to maintain a high level of growth to sustain living improvements for its citizens. Economic reform both solved a short-term crisis in Vietnam in the late 1980s and has proved to be successful in delivering economic growth subsequently. The government is pursuing a cautious programme of integration into the international capitalist economy to sustain this growth. Increasing integration is in turn a source of growing pressures for further structural reform. The signing of international agreements, such as the bilateral trade agreement with the United States and planned accession to the World Trade Organization (WTO), imposes direct demands for structural reform. Other sources of outside influence include international and national aid agencies, which are very active in Vietnam, and press structural reform as a key part of their agenda. The World Bank and the International Monetary Fund (IMF), as well as many bilateral donors, urge the government to implement pro-market reforms, and provide technical and financial assistance to this end. IMF/World Bank loans have included conditions that seek to tie the government to a set of reform milestones in such areas as trade liberalization, banking, and SOE reform.[2]

SOE reform provides a test case for investigating the relative significance of and the interaction between international and domestic forces in the transition process. Is the Vietnamese state able to control and manage this transition successfully — is it a "weak" or a "strong" state in this regard?[3] The Vietnamese party and government have set out a strategy to retain state ownership of key parts of the productive sector, while shedding (including privatizing) less important parts. In other words, SOE reform is about modernizing the SOE sector as much as it is about marketizing it.[4] In some respects, current policy and practice reflect an uneasy compromise. At the Third Plenum of the Ninth Party Central Committee Meeting in August 2001, the lack of consensus was acknowledged:

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> ... A high degree of unanimity of perception is yet to be obtained regarding the role and position of the state economic sector and state enterprises...many issues remain unclear, entailing conflicting opinions, yet practical experiences have not been reviewed for proper conclusions. There are many weaknesses and bottlenecks in the state administration of state enterprises....[5]

In this context, the international community views SOE reform as one of the least successful areas of structural adjustment, subject to policy equivocation and administrative failures. Policy incoherence, implementation failures, and a fragmented or decentralized administrative system have been taken as signs of a "weak" state in Vietnam.[6] However, different criteria by which one judges weakness and strength can produce different assessments. Discussions of "strong" and "weak" states in the literature have moved beyond one-dimensional, holistic categorizations to a more subtle, variegated view of different kinds of state capacities that are evident in multiple arenas of state action in particular states and societies.[7] For example, Kerkvliet argues that the retreat from collectivization by the Vietnamese Government in the 1980s (apparently a "policy failure") was not a sign of weakness, as it reflected recognition of the benefits of negotiating with, rather than attempting to coerce, a reluctant peasantry.[8] The concessions resulted in enhanced state legitimacy (as well as leading to a rapid rise in agricultural production) — they were a sign of "the Vietnam state's capacity to govern".[9] It will be argued in this article that the "incoherence" of SOE reform policy and its "lack of implementation" provide potentially misleading criteria for assessing the capacity of the Vietnamese state. The ability to balance conflicting or ambiguous objectives and to proceed through cautious, piecemeal implementation (that is, to say one thing and do another) may be signs of a state that is capable of pursuing a successful "coping" strategy in the face of severe constraints and contradictory pressures. Through such a strategy, the state is sustaining the institutional and political conditions under which key societal groups and interests benefit.

One source of possible misdiagnosis of state capacity is the very notion of "reform" itself, with its highly instrumental, top-down image of both the process of change and the nature of control. The rhetoric of reform as purveyed by international agencies and consultants fundamentally confuses and distorts the underlying basis of the process. "SOE reform" is shorthand for describing a complex, multi-arena process of strategic actions by state business interests, state bureaucrats, party leaders and other state actors who are engaged in the process of managing and restructuring state commercial activities. The diversity of interests and goals involved in this process defy encapsulation under one

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overarching "reform" umbrella. Just as Gainsborough argues that the label "reformers" attached to a group of leaders associated with evolving policy changes is a misleading one, so too is the word "reform" misleading when used to depict this process of change.[10] The label disguises the essentially interest-based foundations and institutionally shaped trajectories of the process of change and its outcomes. That process is as much bottom-up as top-down, it is contested at many points, and there are multiple perspectives. Once we shed the images associated with a top-down reform discourse, we open up the possibility for a more realistic set of criteria for judging "success" and "failure".

The perspective adopted in this discussion of the reform and restructuring process is "polity-centred", in that the focus of analysis is on a political leadership operating in a particular domestic historical, institutional, and political context.[11] This is not to ignore the fact that the national leadership is also buffeted by external forces and pressured by international agencies, and that this poses its own problems of autonomy and capacity. Apart from the specific issue of the influence of donor SOE reform aspirations on the restructuring process, however, the focus is on how the state handles complex issues of domestic political management and control, issues that must be dealt with whatever the external circumstances. Indeed, Migdal suggests that growing levels of integration and interconnection with the contemporary international system can be used strategically to bolster a state's domestic legitimacy and to capture resources for domestic programmes.[12] At the centre of government is a set of decision-making institutions that are designed to shape and guide the policies, programmes, and actions of the Vietnamese state, including its dealings with international donor agencies. The scope for effective control and management by these central actors is shaped by the internal logic and workings of a wide range of institutional arrangements, traditions, and inheritances that provide opportunities for a variety of other agencies, groups, and individuals within the state to pursue their interests and goals. Of particular importance in the case of SOE reform is the inclusion in the state of significant commercial or business interests and their strong linkages with the party and with key state institutions, including the military. Their state positions give access to significant wealth, as well as power. The perspective adopted here is that successful management and containment of the conflicting ambitions of these groups, requiring some measure of central control over the positional and other resources that sustain them, is a critical part of the maintenance of state policy capacity.

The discussion is in five remaining parts: first, a description and analysis of the role and "performance" of the SOE sector in Vietnam;

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secondly, an account of party and government policy towards SOEs, including an analysis of the main conflicting interests and pressures; thirdly, an account of the role of international agencies in the SOE reform programme; fourthly, an analysis of the political and institutional factors that shape the manner in which SOE restructuring has been managed and implemented; and finally, an assessment of the points of strength and weakness exhibited by the Vietnamese state in the course of this process.

SOEs in Vietnam

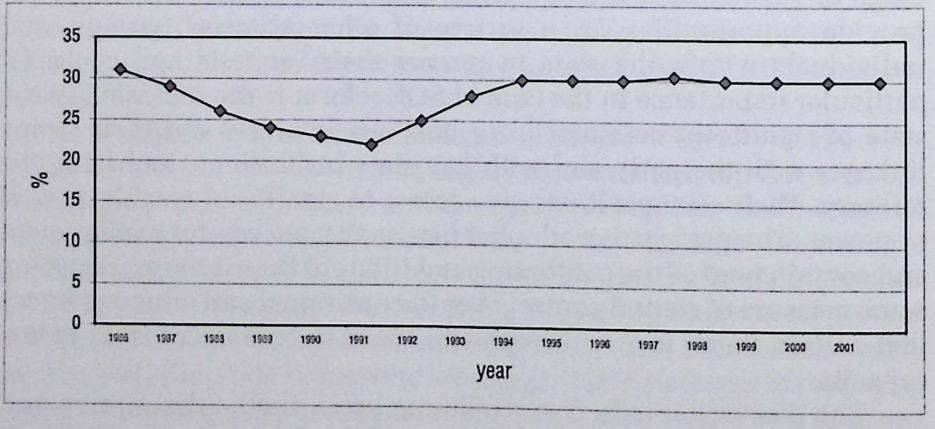
Despite the gradual shift from 1986 towards a market economy, the state sector continues to play a leading role. The current Ten-Year Development Plan affirms this:

> *Reforming and developing the state economy to ensure its leading role in the economy*: the state will focus on investing in socio-economic infrastructure and hold key sectors in the economy, ...SOEs shall be the leading actors in developing high-tech industries and other industries....[13]

As shown in Figure 1, in the initial period of reform from 1986 to 1991, the contribution of SOEs to gross domestic product (GDP) fell, but it subsequently recovered to near former heights and levelled out.

Table 1 depicts the contributions of SOEs to GDP by sector. SOEs accounted for more than 50 per cent of industrial output in the mid-

FIGURE 1
Contributions of SOEs to GDP
(At Current Prices)



SOURCE: *GSO (2000a)*;[14] *and GSO (2002b)*.[15]

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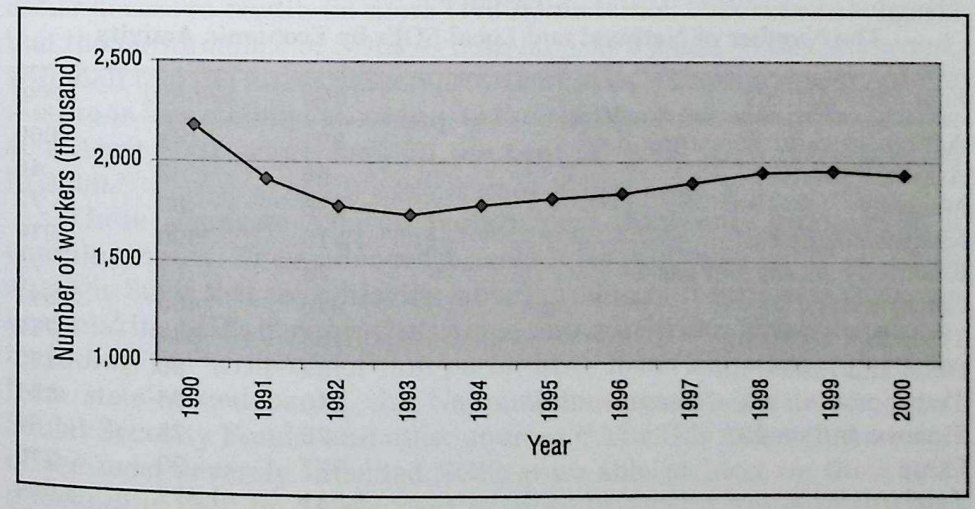
1990s, but their share had diminished to less than 40 per cent by 1999. Nevertheless, SOE industrial and construction output grew as a proportion of GDP during this period, although the number of industrial SOEs declined from 3,000 in 1988 to 1,821 in 1998.[16] Employment in SOEs declined from 2.1 million in 1990 to about 1.9 million a decade later. Figure 2 shows that employment levels fell sharply in the early

TABLE 1
GDP by Sector and Ownership 1995–99
(% of GDP)

	1995	*1996*	*1997*	*1998*	*1999*
Agriculture	27.2	27.8	25.8	25.8	25.4
State	1.2	1.3	1.1	1.1	1.2
Non-state	26.0	26.5	24.6	24.7	24.2
Industry & Construction	28.8	29.7	32.1	32.5	34.5
State	14.5	14.4	15.4	15.4	16.0
Non-state	14.3	15.3	16.7	17.1	18.5
Services	44.1	42.5	42.2	41.7	40.1
State	24.6	24.3	23.9	23.5	22.5
Non-state	19.5	18.1	18.2	18.2	17.6

SOURCE: *IMF (1999).*[17]

FIGURE 2
Trend of Employment in SOEs in the 1990s



SOURCE: *MOLISA (2001).*[18]

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1990s, but then recovered, again demonstrating that the sector remains a key contributor to economic production and growth.

The SOE's share of the total labour force was in fact modest, declining from 7.5 per cent to just over 5 per cent in this period. On the other hand, their contribution to state revenue was very significant, amounting to about 23 per cent of total revenue, excluding royalties from crude oil.[19] Table 2 shows the distribution of enterprises across different kinds of economic activity. SOEs have traditionally dominated in industries such as steel, non-ferrous metals, electrical goods and electronics, chemicals, fertilizers, food processing, and printing.[20] About 28 per cent of the total is found in manufacturing. As Table 2 also shows, more enterprises are owned by lower levels of government (provincial, city and district) than by the national government. The total number of SOEs has more than halved since 1986. In the first wave of restructuring, the number was reduced from more than 12,000 in 1990 to about 6,000 in 1994, by the simple device of requiring re-registration (Decree 338/1991/HDBT). The majority of the 3,000 closures and 2,000 mergers involved local-level SOEs.[21] Now, as then, local SOEs are smaller, and comprise about one-quarter of the total capital of the sector.[22] In 2000, nearly 75 per cent of SOEs had less than 500 employees.

A survey by the Ministry of Finance and the IMF showed that only about 40 per cent of SOEs were profitable in 1997 (see Table 3).[24] Forty-four per cent were classified as "temporary loss-makers" and 16 per cent were "permanent loss-makers". The overall profit rate — at about

TABLE 2
The Number of National and Local SOEs by Economic Activity

Economic Activity	*Total*	*Central*	*Local*
Agriculture and Forestry	801	141	660
Aquaculture	48	2	46
Minerals	135	63	72
Manufacturing	1,515	599	916
Electricity, water and gas	73	1	72
Construction	946	405	541
Trade and repairing	1,133	421	712
Hotel and restaurant	182	30	152
Transportation and Communication	246	95	151
Finance and credit	75	21	54
Other	377	99	278
Total	5,531	1,877	3,654

SOURCE: *GSO (2002)*.[23]

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TABLE 3
Key Financial Indicators of SOEs (1997)

	The 100 largest	*The 200 largest*	*Total*
Total state capital	40,492	44,332	73,075
Total fixed assets	62,548	67,354	n/a
Total turnover	56,523	77,644	267,523
Total contribution to budget	14,094	15,651	23,919
Total debt	29,369	40,237	101,439
Total bank loans	13,544	18,286	n/a
Total profit before tax	3,275	4,942	8,177
Number of profit-making SOEs	89	180	2,196
Debt-asset ratio	.47	.52	.58
Fixed assets turnover ratio	7.07	7.71	n/a
Gross Pre-tax Margin (%)	6.1	7.5	3.1

Note: *n/a = not available*
SOURCE: *IMF (1999).*[27]

3 per cent — was low. The sector had more debt than equity, with debt ratios of more than 0.5. Table 3 shows indications of variable levels of performance. Larger enterprises perform better than smaller ones — they have lower debt to equity, and about 90 per cent of the largest enterprises showed a pre-tax profit. This superior performance may be partly because large SOEs in telecommunications, transportation, electricity generation, and other public utilities enjoy monopolistic positions in their industries. In addition, such SOEs tend to receive easier access to credit, on more favourable terms. One survey suggests that the performance of SOEs — both large and small — has worsened, with half making losses despite growth in sales.[25] A more recent official picture is less gloomy: according to the results of the enterprise census at 1 April 2001, more than 75 per cent of SOEs were profit-making in 2000.[26]

These aggregate data on performance show only glimpses of a complex reality. The evidence for a relatively profitable sector of larger, strategic SOEs that are achieving labour productivity increases is strong. Loss-making SOEs have been sustained through various forms of support, including the write-off of non-performing loans and cash injections from state-owned banks, the National Investment Assistance Fund, Social Security Funds, and other sources.[28] The IMF notes that several of the most severely indebted SOEs were able to increase their total outstanding debt by 50 per cent or more in 1997.[29] Some of this has been the result of policy-driven concessions. In response to the Asian

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financial crisis, in 1998 the government relaxed provisions requiring SOEs to provide collateral for loans; allowed assets generated by existing loans to be used as collateral; and granted special credits for the purchase of some products.[30] However, a significant component of high levels of indebtedness seems to be the result of individual deal-making by managers with state banks and other forms of political connection, despite recent efforts to tighten up on easy credit access through banking reforms. Agreements with the IMF on meeting targets for lower levels of indebtedness by large SOEs have not been kept, with the IMF plaintively reporting that "the authorities are seeking to identify the main sources of the overrun".[31]

From this data, we begin to get a picture of the somewhat murky world of SOE "performance". Other elements that are crucial for understanding the politics of restructuring are even murkier — for example, the concealment of "real" profits and other book-keeping and financial stratagems to facilitate rent-seeking by managers and revenue generation for state agencies. "Transparency" is not helped when financial profit is not the only "official" objective of SOEs, with hidden cross-subsidies built into the accounts as a result. Many administrative and political controls over individual enterprises remain, echoing earlier practices of the command economy. Objectives for SOEs may include a multitude of targets ranging from the maximization of employment to regional policy goals. Managerial discretion is not high, and non-commercial criteria can be imposed by bureaucratic and political fiat. A recent survey has shown that many aspects of business decision-making are subject to central control: the wage budget of SOEs is negotiated each year with the Ministry of Labour, War Invalids and Social Affairs (MOLISA); most SOEs use the standard wage tables for their employees, rather than use the discretion that they supposedly enjoy; there are centrally determined prices for some products, including cement, electricity, coal and paper; the government sets annual turnover and profit targets; and government officials regularly intervene in investment decisions, despite the official granting of discretion to managers.[32]

Reform by Decree

The commercialization of SOEs and the dismantling of central bureaucratic controls was a crucial step in Vietnam's programme of *doi moi*. Decree 217/1987/HDBT created the conditions for increased enterprise autonomy by dismantling some of the institutions of state subsidy and control.[33] The range of targets and controls was greatly reduced; the enterprise manager was given authority to manage day-to-

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day matters, including hiring staff and remuneration practices; the state no longer was to provide for inputs; transactions between enterprises were to be based on contracts; each enterprise was in theory free to buy and sell inputs and products on the open market (although central price controls were retained for key products); and enterprises were to be self-financing through the retention of depreciation charges and the raising of funds from state banks, which were to decide on loans on a commercial basis.

The removal of subsidies and price controls encouraged local measures to prop up ailing enterprises and stimulated the creation of new ones.[34] The large sector of small, non-viable mostly local enterprises was clearly unsustainable, and in 1991 the government took steps to weed out the least viable through requiring all state enterprises to be re-registered or to cease business operations.[35] Clearer lines of authority and tougher criteria based on commercial considerations were introduced to control the registration process. In 1994, a further tightening of criteria occurred. The result was to more than halve the number of SOEs through mergers and dissolution.

In 1991, the Second Plenum of the Seventh Party Congress approved a proposal on "equitization", that is, the transformation of SOEs into joint-stock companies. A pilot programme was approved in mid-1992, and efforts were made to speed it up a year later. Steps were taken to clarify both the principles and the practical details — for example, principles were laid down on the conditions under which enterprises should remain in state ownership, on how to sell shares, what proportion of shares was to be sold, who was eligible to buy them, and so on.[36] In 1992, a Central Steering Committee for Enterprise Reform was set up. Line ministries and People's Committees at provincial and district levels were instructed to set up committees to develop divestiture plans, which were to be submitted to the Central Steering Committee for approval. By the end of 1997, under this "bottom-up process", only fifteen enterprises had been converted to joint-stock companies. Obstacles included technical difficulties (for example, disagreements over the value of assets) and legal impediments (for example, contradictory statements in different decrees). As many of the targets for equitization were loss-making, there were no prospective buyers. Potential purchasers — who in most cases included managers and employees — saw clearly the high risk of taking on ownership responsibilities. They would sacrifice the many advantages that public ownership brought — clearer title to land, easier access to loans, fringe benefits for employees, security of employment, and so on.

Various measures were adopted to speed up equitization in the second half of the 1990s.[37] Each new measure attempted to clarify

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confusions and relax some of the criteria — for example, restrictions favouring employee and manager buy-outs and inhibiting individual share ownership. The issues continuing to cause difficulties included the manner in which valuations were conducted to determine the sale price; treatment of redundant labour (compensation and retraining); and the proportion of shares (if any) available to foreign investors. Other forms of ownership and management structures were also devised to facilitate divestiture, such as contracting or leasing out of enterprises and transformation of SOEs into single-owner limited liability companies.[38] Decision 55/2000/QD-TTg delegated authority (for example, to provincial People's Committees) to approve the sale, business contracting, or leasing of enterprises with a capital value of less than VND 5 billion.[39] A Financial Investment Company under the Enterprise Law was established by the Ministry of Finance to handle the state's interests as owner of the SOEs. In order to assist with the problem of debt management and facilitate the disposal of some of the least viable entities, the Ministry of Finance proposed to establish a national Debt and Asset Management Company (modelled along the lines of a similar agency in South Korea). As a result of all these measures, from the end of 1997 to May 2002, 636 SOEs were equitized.[40]

While increasing efforts have been put into the process of removing obstacles to equitization, the commercialization or corporatization of enterprises that are to remain in state hands is a more significant component of the overall SOE restructuring programme. One aim of the reforms (apart from stated purposes such as "commercialization") has been to reduce the power of line agencies to interfere in business management and capture profits and rents.[41] One such measure was the establishment in 1994/95 of "General Corporations", successors to earlier "Unions of Enterprises" that were established in 1978.[42] "Decision 90" corporations have at least five member enterprises and a capital of VND 500 billion, and "Decision 91" corporations (which require prime ministerial authorization) have at least seven members and a capital of VND 1,000 billion. There are eighteen nationally created corporations (for example, in electricity, coal, petroleum, post and telecommunications, steel and textiles, and garments).[43] General Corporations have a Board of Management and a Board of Control, the former appointed by the establishing authority. Ownership rights remain with the establishing authority, but management functions are vested in the Board. The chief executive is appointed by the establishing authority. Relations between the Corporation and the member enterprises are set down in a model "charter", but in practice there is considerable variation. Generally, it would appear that the degree of autonomy exercised by SOEs is less than the regulations would suggest is available.[44] According

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to a recent survey, most SOEs have to seek approval for major investment decisions, about three-quarters cannot develop their own business plans without approval of the General Corporation and/or the government, and about half cannot set their own prices.[45] However, marketing and procurement are largely undertaken at the enterprise level, as are recruitment and dismissal of workers.

Despite weakening the formal position of the line ministries, the General Corporation model may have confused rather than clarified control and accountability arrangements. General Corporations were established in a top-down manner, and in some cases there is little logic to the composition of the conglomerate. Profitable member enterprises complain that they have to cross-subsidize others, and there have been cases of collusion and price fixing.[46] Nevertheless, the General Corporation is still a significant part of the government's plans for SOE restructuring. Proposals are in hand to develop new forms of conglomerates, under labels such as the "parent company model" and the "holding company model".

The Ninth Party Congress in 2001 laid out an ambitious and expansive future role for the SOE sector: "providing necessary public-utility goods and services for the demand of national defence and security, being the key force in boosting economic growth, and providing ground for the industrialization and modernization of the country with the socialist orientation". Decision 58/2002/QD-TTg fleshed this out by setting out a range of size and profitability criteria for either state retention or equitization. Large, strategic, profitable SOEs in key sectors (particularly those in General Corporations) would largely remain in state hands. The state would hold 100 per cent ownership of SOEs in "public interest" categories, such as state monopolies in explosives, toxic chemicals, radio-active materials, and transmission of electricity; SOEs in businesses that "maintain the essential need for production, development and enhancement of physical and spiritual living conditions of people in rural mountainous and remote areas"; SOEs "doing special business in publishing, lottery and other areas decided by the Prime Minister"; and lastly, SOEs in a range of specified public utility areas. In March 2001, the government adopted a five-year SOE reform plan, with annual targets specified for three years. During 2001–03, about 1,800 out of 5,571 SOEs were to be subject to reform measures, mostly through equitization (1,400), divestiture (140), liquidation (220), and merger or consolidation. Several measures were also announced for auditing, reviewing, and restructuring a number of large SOEs with a view to improving their commercial operations.[47]

This account of the trajectory of SOE reform is incomplete without reference to the continuing process of restructuring that has been going

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on since 1987 at the individual enterprise level under the auspices of entrepreneurial line agencies and managers. Understandably, this process has been less well documented than the "official story" of reform. Making use of new-found commercial freedoms and deploying networks of party and state patronage and connections, many managers built successful commercial operations. In the process, various semi-official forms of "ownership" structure evolved alongside those that were officially sanctioned.[48] Much of the convoluted history of decrees and decisions on SOE restructuring is explicable as responses to the manoeuvring of such players seeking to protect and consolidate their commercial gains against attempts to assert national policies.

International Agencies and SOE Reform

The March 2001 SOE plan was widely welcomed by the international community, and in some measure showed the imprint of its inputs to reform policy. How significant are these inputs? The Vietnamese Government is heavily aid-dependent. According to the World Bank's *World Development Indicators*, between 1994 and 1999, annual overseas development assistance (ODA) averaged 20 per cent of central government expenditures, rising from 17 per cent in 1997 to 27 per cent in 1999. One estimate is that ODA loans will provide US$1.4 billion and US$1.5 billion in 2003 and 2004 respectively.[49] However, despite quite high levels of capital inflow as the economy grows, Vietnam's overall debt position is relatively strong. Debt services as a share of total exports are at 10 per cent (compared with Indonesia at more than 30 per cent and Thailand at 23 per cent). About four-fifths of debt in Vietnam is with multilateral and bilateral donors, on concessional terms.[50]

Annual high-level "consultative group" meetings that involve all donors are held with the government to discuss and monitor aid programmes and their goals. There is regular detailed consultation with the government over the disbursement of aid by the IMF and World Bank, undertaken in a framework of a Country Assistance Strategy (CAS). High levels of technical assistance accompany this programme. The current focus for assistance is a Comprehensive Poverty Reduction and Growth Strategy (CPRGS), announced by the government in May 2002.[51] This strategy draws heavily on Vietnam's Ten-Year Development Strategy (2001–10) and Five-Year Socio-Economic Development Plan (2001–05), both approved at the Ninth Party Congress in 2001, but also reflects strong donor agency input.[52]

SOE reform, together with other structural reform programmes, is an element of the CPRGS. The set of measures proposed under the

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CPRGS echo earlier government pronouncements drawn up as part of the five-year SOE reform programme of March 2001 (described earlier). In November 2001, the government published an "Action Plan for the implementation of the Resolutions of the 3rd Plenum of the 9th Congress of the Central Committee", which spelt out the details of the SOE reform plan, allocated responsibility for thirty-four specific tasks, and gave milestones and deadlines.[53] Specific financial assistance for the SOE reform programme includes a World Bank loan facility for a safety net assistance fund for redundancies (details of which were announced by the government in April 2002).

IMF and World Bank funds involve an element of conditionality, if only through the formal processes of monitoring and consultation imposed on the recipient government.

In general, however, the conditions set out are mild. The IMF monitoring milestones for the SOE reform programme are a case in point. They are a mixture of reiterated government objectives and a few specific encouragements. There is nearly always slippage on these specific targets and milestones, but the normal result is mild admonishment more than direct sanctions.[54] Targets for equitization have regularly been under-shot, with particular concern being caused by a declining rate in 2001 over 2000. The reasons were many, and some were sympathetically acknowledged by donors.[55]

In sum, the extent to which the SOE programme is shaped by the external pressures of lenders and donors should not be exaggerated. First, Vietnam's fiscal position is not a source of high vulnerability, although it is dependent on capital inflows to feed growth. Secondly, the main impact of the combined influences of technical assistance and loan conditions, with their attendant exhortation and monitoring, is probably to strengthen the hand of those within the Vietnamese Government pressing hardest for accelerated reform and restructuring.[56] The incorporation of milestones and implementation timetables in government decisions adds additional muscle to the exhortations of the central reform agencies. The resources that come from overseas aid add significantly to departmental budgets, and win support for the alliance between donors and key bureaucratic actors. In cementing this alliance, donors tread carefully for fear of creating a political backlash. They recognize that the level of tolerance for intrusive demands and conditions is not high among Vietnamese public officials. Following the call by key donors for an "accelerated *doi moi*" in 1998, Minister of Planning and Investment, Tran Xuan Gia, was quoted as saying "...you cannot buy reforms with money...no one is going to bombard Vietnam into acting".[57] The fear that entanglement with the IMF and other international donors might result in "losing the war by other means"

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sets limits to the acceptability of monitoring and guidance, and moderates the expectations of the donors. In the meantime, the advocates and beneficiaries of restructuring willingly accept funds to assist them in strengthening the state commercial sector along the road to "market socialism". The most striking feature of the effect of external inducements to reform is the manner in which, while being kept at arm's length, they provide resources for domestic actors to pursue their own goals. The most striking illustration of this is that the March 2001 SOE reform plan, with its emphasis on equitizations and its alignment with IMF and World Bank timetables, co-exists with other policy pronouncements (such as Decision 58) that speak of another trajectory altogether — the entrenchment and strengthening of the state sector.

The Politics of SOE Reform

If, as just argued, international donors and lenders play a somewhat peripheral role in the process of shaping the direction and pace of SOE restructuring, what are the dynamics of the domestic processes that contribute to these outcomes? As already alluded to, following the deregulation of much of the commercial activity of SOEs in the late 1980s, a state business or commercial interest evolved, comprising officials in line ministries, provincial and district governments, SOE managers, SOE workers and many senior party officials as their "patrons".[58] This constellation of actors used state power to advance and protect both the commercial interests of enterprises and their own personal positions. One view is that the programme of national SOE reform and restructuring policy has to be seen in this context as an attempt to reassert central control over "rogue" commercial actors using state resources for their own benefit.[59] At the same time, the representation of these interests within the highest organs of the state is also reflected in the pattern of compromise and continual adjustment in SOE policy.

In referring to "central control", it must not be taken for granted that this is either unified or consistent in its aims. One tension is between party and state objectives and instruments of control. The party centre sees strengthening party organization in SOEs and General Corporations as part of the SOE reform agenda. The recent Ninth Party Congress in 2001 spelt out the aims:

> Party organizations in state enterprises lead in the application of party lines and policies, participate in proposing and leading in implementing efficiently the business development; ensure the legal rights for labourers; bring democracy into play; lead in building the

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manager system, party members, and in fighting corruption; lead mass organizations in implementing their tasks and functions.

The structure of control and supervision is laid out in detail. In Decision 91 General Corporations, the party committee reports directly to the party executive committee of the central economic sector "in case general corporations require close leadership in terms of vertical management". Party organizations of member enterprises report to local party organizations. In Decision 90 General Corporations, the party committee for the Corporation reports directly to the provincial party committee. The Central Organization Committee has issued a circular on "...innovating the leading way of Party organizations in SOEs to fit with the requirement and operational characteristic of enterprises in the new conditions".

The insistence on retaining strategic control of the largest enterprises in key sectors thus includes a political strategy as well as an economic programme. In some respects, the two reinforce each other and have common aims (the party is clearly in tune with the need for more effective commercial management of enterprises), but the tensions that arise from this dualism are significant. One source of such tensions is the appointment and remuneration of managers, which is currently a matter of party and bureaucratic patronage. Instead of measures to recruit specialist managers and impose strict performance criteria, efforts are in hand to retrain existing incumbents and to educate party cadres in commercial practices, without radically changing their terms of employment.

The struggle over the priorities in SOE reform is thus entwined with the struggle over wider state restructuring. The overlap between party and state is at the core of the principles of democratic centralism, but since the adoption of a new constitution in 1992 as part of the *doi moi* process, there has been a steady process of institutionalization of the idea of "rule by law" (as distinct from by party fiat). This has seen a strengthening of the formal and substantive powers of the organs of government, including the office of Prime Minister as leader of a distinct executive arm. The idea of a distinct sphere of "public administration" is also taking hold.[60] As the advocates of a "state ruled by law" see it, the state and economy must be more clearly separated, and a new set of institutions and instruments put in place to manage the relationship. This means (to these proponents) getting the party out of its direct management role in state affairs, including state enterprises, in contradiction of the enhancement of party control over enterprise management enunciated at the Ninth Congress. The instruments of party control and oversight are still formidable, and are backed up by

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official doctrine on the nature and role of the state.[61] Overlap between party and government operates in a number of ways, including dual mechanisms of political control at the very top in the national government and the party respectively (namely, the Politburo and the party Central Committee and its policy committees); the continued operation of the *nomenklatura* system through which all significant appointments and promotions in state organs are monitored and controlled by the party, both at the centre and in the provinces;[62] and the role of the "party affairs section" within each state organization.

In this context, the development of any coherent economic reform strategy must steer its way through a complicated party–state combination of policy concerns and political interests. The complexities for the leadership are multiplied when we come to consider the political interests that are incorporated within the multi-layered state management system of departments and agencies. Gillespie refers to this as a system of "polycentric power sharing".[63] The machinery of government in Vietnam would be considered by most outsiders to be fragmented and cumbersome.[64] The tendency is for flat hierarchies comprising a multitude of bodies, many of them only tenuously connected to a weak administrative centre. Gainsborough directly links this fragmentation — or "institutional particularism" — to the significance for line agencies and provincial officials to retain control of state commercial interests and resources.[65] Whether for patronage purposes or simply to get the job done, managers seek to defend bureaucratic turf and to enhance their financial autonomy. In a world of scarce resources and tight budgetary control, extra-budgetary sources of finance, such as user fees (both "official" and "unofficial") and gains from SOE commercial activity are a vital resource.

Outside reform advocates look on with frustration at the apparent lack of cohesion and control that result from bureaucratic fragmentation and insularity:

> No single agency is currently responsible for monitoring implementation of all reforms, nor for ensuring consistency and coherence... Even for a single reform component like SOE reform, several ministries/agencies are involved... — Ministry of Finance, Ministry of Planning and Investment, Ministry of Labour, Invalids and Social Affairs and the Office of Government — but actions in respect of specific SOEs like equitization, liquidation, sale and restructuring, can only be taken by owners like different provincial peoples' committees, line ministries and General Corporations. They in turn have to persuade enterprise managers to take actions.[66]

As this comment notes, the state is also fragmented into layers, albeit in a "unified system". Provincial representative organs (peoples' councils)

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are subordinated to the National Assembly, and provincial executive bodies (peoples' committees) are subordinated to the national government. Central government ministries have field offices, which serve as part of the administrative machinery of the People's Committees (an example of the principle of "double subordination"). Neither national nor provincial governments possess their own uninterrupted hierarchies of administrative command, but share overlapping structures — the head of a provincial administrative department in a line ministry is under the command both of the national ministry head office and of provincial level senior officials. This is part of a wider problem: who has power to issue and interpret laws, decrees, decisions, ordinances, guidelines, and circulars, and which of these documents take priority when they come into conflict, are matters of ambiguity, despite measures to clarify powers.[67] The issuance of a party decree or prime ministerial decision does not end the matter: there is often the need for a ministerial or provincial level guideline or inter-ministerial circular to clarify procedures. The inoperability of many decisions long after they have been "taken" because they do not suit the interests of local managers is a common feature in this context of overlapping authority and disjointed lines of command.

These deeply ingrained institutional features both encourage and feed off the economic resources that SOEs can bring to their managers and their bureaucratic patrons. It is not surprising in this context that the initiative for a process of restructuring of an enterprise has rested in the hands of the enterprise and the bureaucratic agency in which is vested ownership rights. The inability to overcome this structural fragmentation on a day to day basis is also illustrated by the lack of coherent, co-ordinated management of the SOE restructuring programme, despite the continual avalanche of decrees, decisions, and circulars flowing from Hanoi. As the observation by the World Bank quoted above indicates, major responsibilities for financial and other aspects of SOE oversight and reform are scattered across a number of government ministries. The operation of the National Steering Committee on Enterprise Reform and Development (NSCERD), successor to the co-ordinating committee set up in 1992, demonstrates the style of policy management that emerges in this system. The Committee (since its latest restructuring in 2001) is chaired by a deputy prime minister. Its members are high-level agency officials, who see their role as holding a "watching brief". NSCERD's formal mandate is to "draw up strategies", "direct, guide and monitor implementation", "co-ordinate with the competent agencies" in making submissions and "propose solutions to remove difficulties" in the reform programme.[68] Its own version is that it plays a "fixer" role, being authorized to intervene in inter-level and

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inter-departmental arenas to clear blockages in the implementation of restructuring proposals.[69]

NSCERD's three chief officials are assigned part-time from other positions (the vice-head is chairman of the Office of Government [OOG], which is like a Prime Minister's Department), and the full-time staff is small and of relatively low status. Uncertainty surrounds the exact source of the committee's authority, whether it derives from the OOG or from an independent remit from the Prime Minister. Tellingly, the actual committee effectively stopped meeting in 2001. As a result, in this highly complex and conflict-ridden field of policy, the Committee is generally viewed as a force for prevarication as much as an engine of reform. One of the demands of international agencies has been to give it "enforcement powers", a result of which was the restructuring announced by Decision 128, which placed it under a deputy prime minister and attached it to the OOG. Ironically, this measure (supposedly aimed at enhancing its bureaucratic "clout") was resisted by its staff, which saw things very differently, namely, a loss of independence and status rather than a gain in co-ordinating power. To suggest that the change has made a fundamental difference (as the IMF seems to have done in accepting it as a sign of meeting a reform "milestone") is to misconstrue the nature of such a body's role and standing in the Vietnam state's system of diffuse and shared authority. It is there to signify the existence of central policies, to broker attempts to implement them, and to make frequent pronouncements on the progress being made, not to "command and control".

Conclusion

There is a powerful domestic structural and political logic to the pace and trajectory of the SOE restructuring programme in Vietnam. State commercial interests are deeply embedded in the structure of the Vietnamese state, and help to sustain both the bureaucracy and the party. Efforts by the national government and the party centre to manage and co-ordinate a restructuring process are inhibited by these institutional and political factors, but they are not so debilitating that the state cannot hold together. The party and government share a common interest in maintaining a healthy and profitable SOE sector. On the one hand, the delays and prevarications in the SOE restructuring programme would seem to depict a weak state that is unable to implement a coherent reform strategy. On the other hand, it could also be said to demonstrate a resilient state comprising a plurality of interests, which is able to resist unwelcome pressures to marketize while leaving scope for many innovations and adjustments to produce

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a more efficient set of economic enterprises. These adjustments are as much through local invention and adaptation as through central "reform". The rhetoric of reform can be plausibly sustained, but at the same time the pace of reform is slow enough to reassure those who fear its excesses.

Thus, the lack of co-ordination, slow implementation and U-turns so familiar and frustrating to outsiders has a political logic. What appears contradictory from the outside actually comprises an internally balanced political strategy for managing a potentially chaotic transition. One element in its success is that the state relies on being relatively insulated from external political or societal sanctions, such that contradictions can largely be contained within the circles of the party-state. For example, "government by decree" leaves room for local interpretation and implementation, enabling continual refinement and correction, reaffirmation and modification. Gaps in control caused by disjointed hierarchies that leave room for lower level obstruction and resistance also keep issues open and deflect opposition and dissatisfaction, while permitting further search for workable local and national solutions.

Paradoxically, then, the capacity of the Vietnamese state to shape and control its own economic reform programme rests in part on a set of traditions and practices that seemingly weaken and diffuse administrative control and policy coherence. These traditions and practices are viewed with scepticism and puzzlement by donors and lenders, who call for "better enforcement" and more coherent central control and direction (for example, in the shape of a "single agency or organization for economic reform").[70] Only then would "real reform" be possible. However, it is the lack of coherence and the diffusion and sharing of power and authority within a fragmented state that enables the transition to be managed in such a way as to accommodate external pressures, while also (to date) preserving the state's stability and integrity as it pursues its long-term programme of *doi moi*.

NOTES

1. I acknowledge the assistance of Phan Huu Nhat Minh, who collated and tabulated the primary data on the structure and performance of the SOE sector in Vietnam. Adam McCarty and Mekong Economics provided additional support for the project, which was funded by the City University of Hong Kong Project Grant 7100218. An earlier version was presented at a Panel on "Changing Contexts and Roles of Government", International Conference on Governance in Asia: Culture, Ethics, Institutional Reform and Policy Change, 5–7 December 2002, Governance in Asia Research Centre, City University of Hong Kong.

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36. Decision 202/1992/CT, Circular 84/1993/TTg.
37. Decree 25/1997/CP of March 1997 was replaced in 1998 by Decree 44/1998/ND-CP, which in turn was supplanted by Decree 64/2002/ND-CP.
38. Decree 103/1999/ND-CP and Decree 63/2001/ND-CP. The latter was aimed at facilitating "commercialisation" while retaining state or party ownership.

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39. The Vietnamese dong is valued at approximately fifteen thousand to the U.S. dollar.
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42. Ray Mallon, op. cit., p. 35. The "Union" model was revived as a way of putting a distance between the ownership and management functions, with the new "conglomerate" model being piloted in Ho Chi Minh City. Decision 90/1994/TTg and Decision 91/1994/TTg of March 1994.
43. In 2000, Decision 91 General Corporations employed about 35 per cent of all SOE employees in Vietnam and made up about 64 per cent of total SOE pre-tax profit; see Marukawa, op. cit., 2000, p. 1.
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56. The category "reformers" is a loose and large one. Elite politics in Vietnam is more complex than a constant struggle between "reformers" and "conservatives". See David Koh, "The Politics of a Divided Party and Parkinson's State in Vietnam", *Contemporary Southeast Asia* 23, no. 3 (2001): 533–51; and Gainsborough, op. cit.
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70. World Bank, *Vietnam Development Report 2002*, p. 42.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

Malaysia's Illegal Indonesian Migrant Labour Problem: In Search of Solutions

JOSEPH LIOW

The influx of illegal Indonesian migrant labour into Malaysia continues to be a source of bilateral friction for Malaysia–Indonesia relations. This article argues that long-term solutions to the problem of illegal Indonesian labour remain illusive because of the lack of political will on the part of both governments to compromise. The article begins by exploring the historical background to Indonesian migration into the Malay Peninsula. It then proceeds to discuss the "securitization" of the illegal Indonesian migrant worker issue by the Malaysian Government and media, and how this has framed Malaysian perceptions of Indonesian workers. Finally, it concludes by examining the problems and prospects for a long-term resolution of this enduring problem.

The long-term, undocumented migration flow of Indonesians into Malaysia is arguably the second largest flow of illegal immigrants after the movements across the U.S.–Mexico border. The issue of the migration of illegal Indonesian labour to Malaysia has been a persistent source of friction in Malaysia–Indonesia relations for the past twenty years. The latest round of protests by Indonesian politicians, the media, and the public in response to harsh laws recently enacted by Kuala Lumpur against illegal foreign workers threatened once again to plunge bilateral relations into another downward spiral of animosity and diplomatic sabre-rattling. Tensions have been exaggerated by the securitization of the illegal Indonesian migrant worker problem by the Malaysian media and certain government officials. Given the vast number of Indonesian labourers in Malaysia and the crucial role they play in the Malaysian

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economy, unless the root causes of this problem are acknowledged and addressed coherently by both parties, the issue of illegal Indonesian migrant labour will continue to be an obstacle to better bilateral ties.

The regular recurrence of the problem of illegal Indonesian labour migration into Malaysia and the elusiveness of viable solutions has opened the way for scholarly research to be undertaken to illuminate the fundamental issues involved that impede the search for solutions. Be that as it may, there remains a paucity of scholarship that attempts to study the social, political, economic, and diplomatic undertones to a problem that has emerged as one of the most enduring problems for contemporary Malaysia–Indonesia relations. Most studies that have been done on this subject have taken two forms. Some have devoted much effort at listing the social-economic problems arising from the influx of Indonesian labourers, and in particular illegal economic migrants, into Malaysia.[1] Others have studied the geographical and demographical dimensions to this problem, focusing on the origins of these Indonesian illegals, the problems they encounter in making their way to, and finding employment in, Malaysia, and the exploitation that they are forced to undergo as a result of their status.[2] Few have attempted to place the illegal Indonesian migrant worker problem in the broader historical context of political trends in Malaysia–Indonesia relations, or to make recommendations on the crucial issues that need to be addressed in the search for solutions.[3] It is in this regard that this study considers the political undercurrents to the phenomenon of illegal Indonesian labour in Malaysia. The article seeks to explore: (1) the evolution of the so-called "illegal Indonesian migrant worker" problem, (2) the various unilateral and bilateral attempts at finding a solution, (3) some possible considerations that should be taken into account in this search for solutions, and (4) the underlying problems which have impeded, and might continue to impede, progress towards a comprehensive resolution based on the interests of both states.

Origins of Indonesian Migration into the Peninsula

Migration from the Indonesian archipelago to the Malay peninsula has long been a feature of the interaction and exchange that defines the identity of the Indo-Malay World. Malay historical records such as *Sejarah Melayu*, *Hikayat Hang Tuah*, and *Sejarah Melayu dan Bugis* (otherwise known as *Tuhfat al-Nafis*) document the movement, via both trade and war, of peoples across the Indo-Malay archipelago and how cultures crossed as a consequence of this. In the more recent colonial past, British and Malay authorities in the peninsula also welcomed migrant workers from Indonesia to meet the manpower

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requirements of colonial economic enterprise.[4] Because of shared racial and to some extent cultural traits, Indonesian migrant workers were favoured by the Malay aristocracy and royalty in the nineteenth century as demographic buffers against the influx of Chinese and Indian labour that was occurring under colonial economic policy. Later in the 1950s and early 1960s, Indonesian migration into Malaya was also encouraged by the Malayan Government for political reasons, as their easy integration into the Malay community allowed Malays to maintain a numerical edge in population over the Chinese and Indians. A scholar of this phenomenon had observed that in the early years these immigrants were "silently welcomed" by the Malays, for the immigrants were then perceived as *bangsa serumpun* (of the same racial stock) who would eventually assimilate with the local *bumiputera* (indigenous person, literally "sons of the soil"). Thus, in the long run, the Indonesian immigrants were regarded to have strengthened the Malays' electoral power *vis-à-vis* the non-Malays because it was assumed that they would assimilate with the local Malays.[5]

The political motivation for the encouragement of Indonesian immigration gained greater urgency after the 13 May 1969 racial riots in Malaysia. The riots sparked a reassessment of the terms of national identity in Malaysia, leading to government-sanctioned affirmative action policies aimed at entrenching Malay dominance in both the economic and political spheres. Insofar as Malaysia's relations with Indonesia were concerned, many among the Malaysian leadership saw that close relations with Jakarta worked as an effective buffer to the increasing dominance of the ethnic Chinese community in Malaysia at the time. To that effect, a Malaysian political affairs report had hypothesized that:

> Good relations with Indonesia have overriding significance because, to the Malays, Indonesia represents their ultimate source of strength in a region under the heavy shadow of communist China and with large overseas Chinese populations of unpredictable loyalty.[6]

Commenting on this influence of such thinking in Malaysia, an Australian intelligence source reported portentously:

> The moderates (in Malaysia) see in a new relationship with Jakarta some element of insurance against the Chinese .... More radical Malay feeling may move the government in Kuala Lumpur further in an anti-Chinese direction, and towards greater concerting of Malaysian and Indonesian policies.[7]

In fact, many among the Malay community, particularly among the Malay radicals, believed that in the event of a clash with the Chinese, Indonesia would come to their assistance.[8] The negative implications of such a state of affairs for the fragile multiracial Malaysian national

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identity was that "backed by Indonesia, and stimulated by Indonesia's attitudes towards the Chinese ... the radical Malays could increasingly campaign to use Malay predominance in Government and administration for anti-Chinese measures".[9] It was in this context that the 1970s saw active co-operation between Kuala Lumpur and Jakarta to encourage the migration of Indonesians into the peninsula.

Economic logic further accompanied the political motivation behind Indonesian migration into Malaysia in the early 1970s. The expansion of the Malaysian economy as a result of an industrialization programme under the New Economic Policy began to provide employment opportunities to foreign as well as local labour.[10] In particular, the urban migration of Malay youths opened the door for Indonesian labour in the agricultural sector. Push factors included unemployment and over-population in Java, while the relatively higher wages found in the peninsula was a major pull factor.[11] Added to that was the fact that the easy assimilation of most Indonesians into Malay society sometimes allowed the "guests" to benefit from affirmative action programmes of the NEP as well.[12] Even without such inducement, the fact that Malaysia was not only a location of close proximity but also a nation whose majority population shared much with the Indonesians in terms of language, culture, and even ethnicity meant that it would be the obvious choice for Indonesian labour looking to relocate to greener pastures. By the 1990s, Indonesian labour had moved from agriculture to the construction and service sectors in tandem with the urbanization of Malaysia; and their numbers also increased substantially to meet this demand. It was estimated by the Washington-based Migration Policy Institute that during the period 1994–99, 556, 575 Indonesian workers arrived in Malaysia legally, more than half of the total foreign labour work-force in Malaysia.[13]

Indonesian labour has thus played a particularly crucial role in the expansion of the Malaysian economy since the late 1980s. With the emergence of labour shortages, the government announced in late 1991 that more foreign workers could be recruited in the plantation, construction, and domestic service sectors under the Foreign Labour Recruitment Policy. Needless to say, a large percentage of this increase has been Indonesian labour.[14] Unfortunately, the fact that the Malaysian Government has never successfully put in place a concrete and clearly defined policy on migrant labour has not only hampered close monitoring of the situation, but as this article suggests, it has also aggravated the negative impact of the Indonesian migrant labour problem on bilateral relations.[15]

While Indonesians have historically migrated into the peninsula and played a critical role in shaping the culture and economy that has

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evolved there, in recent times Indonesian migration has been viewed in a markedly negative light, and has been blamed for a host of social problems that have plagued Malaysia. In particular, fingers have been pointed at Indonesian workers who have entered Peninsular and Eastern Malaysia via the coasts of Sumatra and across the Indonesia–Malaysia borders in Borneo without valid documents. Until recently, illegal immigration had been a relatively muted issue on the political stage owing to efforts by both governments to tone down their rhetoric on an issue that might have otherwise sent bilateral ties into a tailspin. Diplomatic indulgence, however, could not conceal the fact that illegal Indonesian workers were fast becoming a major problem for the Malaysian Government, and the inability to find a satisfactory solution has meant that this issue remains a thorn in the side of both governments. Indeed, it was this combination of a lack of solutions and the increasing urgency of the problem that culminated in the recent mass expulsion of Indonesians between March and July 2002 as part of a Malaysian Government programme to repatriate illegal workers.[16] Because of slipshod logistical planning and preparation, a general under-estimation of the numbers, and a lack of communication and co-operation between Malaysian and Indonesian authorities, this programme of mass repatriation, insofar as it related to Indonesian workers, resulted in many problems. Identification and registration of illegal workers were difficult, as was their transportation out of Malaysia. Consequently, many were detained in unhygienic environments and subsequently shipped out of Malaysia in overcrowded vessels. Malaysia's policy of immediate repatriation also created logistical problems for Indonesia, with returning workers confined again in overcrowded stations at their Indonesian ports-of-call as they waited for transportation back to their villages and towns.[17]

Yet while the questionable nature of the repatriation exercise and the subsequent implementation of harsh laws no doubt contributed to the resentment of Indonesians towards Malaysia, it has been the matter of the "securitization" of the illegal Indonesian worker problem that has antagonized most Indonesians, fostering in them a belief that they were being specifically targeted by the Malaysian Government for ill-treatment.

The "Securitization" of the Illegal Indonesian Worker Problem

With the increase in the number of Indonesians entering Malaysia over the years, concerns had intensified that these Indonesians had a potential rupturing effect on the fabric of Malaysian society. This was because the influx of Indonesian labour in Malaysia evidently coincided with

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an increase in crime rates, particularly in the 1990s. Indeed, Indonesian labourers have been implicated and convicted in crimes ranging from petty theft to rape and high-profile robberies and murders. In 2001 alone, 1,051 Indonesian workers, by far the largest figure from the foreign labour communities, were arrested for such crimes. More alarmingly, Malaysian security forces have also reported the discovery of weapons in illegal immigrant squatters strewn throughout Peninsular and East Malaysia. Consequently, Malaysia's increasing intolerance of the criminal activities of Indonesian illegals has prejudiced them against legal Indonesian workers as well.

Matters were no doubt aggravated by the sheer magnitude of the presence of undocumented Indonesian workers in Malaysia. In 1981 for example, it was estimated that there were 100,000 illegal Indonesian immigrants in Malaysia.[18] By 1987, the figure was placed by the Malaysian Trade Union Congress at close to one million. In the Migration Policy Institute Report cited earlier, it was noted that an amnesty offered by the Malaysian Government in 1993 to Indonesian illegals saw half a million undocumented migrants come forward; it noted further that "since coming forward meant that employers had to pay migrant workers the same wages as Malaysians and provide them with the same working conditions, it is clear that not all undocumented workers were detected in the amnesty".[19] Indeed, during subsequent government operations aimed at flushing out illegal foreign labour throughout the country, it was revealed that 83.2 per cent of the 483,784 illegals uncovered in 1992–94 and 59.4 per cent of the 554,941 in 1996 were Indonesians.[20] In addition, it was once estimated that up to 36 per cent of prison inmates throughout Malaysia were illegal Indonesian immigrants.[21]

In recent times, the increase in the number of Indonesian immigrants led to more intense competition for jobs, and especially those traditionally the preserve of Malay commerce. Another matter for concern was the fact that many Indonesian immigrants (illegal or otherwise) were in fact Christians and had begun using shared language and ethnicity as an avenue to proselytize among the Malay community.[22] Such was the severity of this problem that a Malaysian Cabinet minister had considered the spreading of Christianity among the Malay population by their Indonesian counterparts to be the "biggest threat facing Muslims in Malaysia today".[23] Larger scale crimes, such as rioting, in particular, have been given greater publicity in the Malaysian media and have exacerbated negative opinions of Indonesian workers. While riots involving Indonesian workers have occurred regularly both inside and outside detention centres, such as the January 1987 hostage siege in a Kuantan prison, the growing regularity of such incidences of

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mob violence in recent times, exemplified by a string of riots between October 2001 and January 2002, has raised alarms in Malaysia. In Malaysian political discourse thence, the phenomenon of Indonesian illegal workers was fast becoming a "threat" to "national security".[24]

Recent Crises

While the illegal Indonesian migrant worker issue has long been a problem for Malaysia, it was a policy change in reaction to problems associated with Indonesian labour towards the end of 2001 that sparked the mass expulsion of foreign workers, mostly Indonesian, and the introduction of a suspension of Indonesian employment in Malaysia. In March 2001, the Malaysian Home Ministry proposed to review Immigration Act 1959/63 and increase the punishment to be meted out to illegal migrant workers in Malaysia, including whipping for the workers and heavier fines for their employers.[25] In October 2001, the Malaysian Parliament passed legislation that capped work permits for foreign workers at three years. In so doing, Kuala Lumpur changed the official status of many Indonesians from "legal" to "illegal" almost overnight. This was because many of these workers in fact carried six-year work permits, yet with the implementation of this policy those who had served three or more years of the six were immediately categorized as "illegal" and repatriated with three months' notice. Subsequently, the government also announced its decision to repatriate 10,000 Indonesian illegal immigrants each month.

In response to their sudden change in status, "re-categorized" Indonesians detained at the Machap Umboo detention centre in Alor Gajah rioted, in the process injuring a Malaysian policeman. Later in November that year, 2,000 illegal workers who were detained at the Pekan Nenas detention centre in Johor also rioted. The Malaysian media latched quickly to these two incidents, portraying them as typical examples of Indonesian violence. Consequently, calls were intensified for the government to take more drastic measures against Indonesian illegal workers, despite Indonesian expressions of regret for the incidents.[26] The Malaysian Government responded by introducing flogging for first-time immigration offenders, and the immediate repatriation of detained illegals.[27]

More recently, concern over terrorism in the region has introduced a new dimension to the "problem" of Indonesian immigrants.[28] With the recent revelations that Indonesians were behind a terrorist network operating in Malaysia and Singapore, there was a fear of the possibility that the Indonesian illegal migrant worker network could provide yet another channel through which Islamic militancy could be transported

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to Malaysia. This concern heightened in the wake of the terrorist bombing in Bali on 12 October 2002, when it was revealed that the planning for the Bali attack took place in Malaysia.[29] Coupled with the perceived propensity of Indonesian workers towards violence, that concern prompted a desire in Malaysian circles to put Indonesians under closer scrutiny.

Repatriation and the "Hire Indonesians Last" Policy

On 17 January 2002 in the state of Negri Sembilan, some 400 Indonesian workers at a textile factory in the Nilai industrial estate rioted and torched buildings after police tried to detain sixteen of their co-workers for alleged drug abuse. According to a Malaysian labour rights group, Tenaganita, the riot was provoked by police when they lined up the workers and started slapping them while conducting urine tests.[30] Their report was brushed aside by Mahathir, who inflamed Indonesians by suggesting that even if there was police brutality involved, Indonesian police were much worse.

Another widely publicized riot involving seventy Indonesian workers and stall owners in Cyberjaya, south of Kuala Lumpur, three days later, on 20 January, gave greater impetus to Malaysian condemnation of Indonesian workers. Government and media outlets immediately blamed the workers for the incident and launched a vitriolic attack on Indonesian workers in general, branding them as "troublemakers". Consequently, Indonesian apologies for both incidences went unacknowledged in Kuala Lumpur. Expressing the sense of frustration that Malaysia was feeling, Law Minister Rais Yatim noted:

> Besides defying authority, they (Indonesian immigrant workers) had the cheek to wave the Indonesian flag. They are not in Jakarta. They are in Malaysia.... Indonesia's Ambassador here need not say sorry anymore. We are going to take stern action. Malaysians in general cannot tolerate the violent behaviour of the Indonesians who are being too extreme and ungrateful.[31]

Following these two incidents, the Malaysian Government announced that it was going to embark on a policy of mass repatriation of illegal foreign workers. Deputy Prime Minister Abdullah Badawi subsequently announced on 24 January 2002 a "temporary halt" to the employment of Indonesian workers. Elaborating on this policy, Prime Minister Mahathir expressed the opinion that it was time for Indonesian workers in Malaysia to be "replaced" by workers of other nationalities. Mahathir reinforced Badawi's statement implying the closing of its doors to

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Indonesian labour, and announced a "Hire Indonesians Last" policy, where Indonesians would be confined to the domestic help and agricultural industries.[32] Mahathir defended the decision to impose the employment ban by arguing that: "A lot of crimes they (Indonesian workers) have committed, we've kept silent about. But when a riot is carried out by one group, followed by another and another, we cannot any longer stay silent".[33] While several Malaysian Ministers commented that there was also an economic logic to the repatriation of foreign workers, arguing that there was a need in the context of the Asian economic crisis to create employment for Malaysians and also to control the outflow of ringgit from Malaysia, it was clear that the government's decision to repatriate foreign workers was driven primarily by what they perceived to be the security threat posed by them, and in particular those of Indonesian descent.[34]

Paradoxically, the Malaysian Government's attempts at implementing the "Hire Indonesians Last" policy revealed the full extent to which Malaysia depended on Indonesian labour for its economic and infrastructural development. It was revealed by MIER (Malaysia Institute of Economic Research) that Indonesians accounted for up to 70 per cent of construction workers, and 80 per cent of these Indonesians were undocumented.[35] Consequently, the implementation of this policy saw the immediate reduction of construction workers by some 40 per cent.[36] The policy was quickly recognized as unviable, and was subsequently rescinded. Of greater significance than the impracticability of such a policy, however, were the ramifications it had on Indonesian perceptions of Malaysia, and the status of their bilateral relations.

Indonesia's Response

Kuala Lumpur's policies and the treatment of Indonesian workers as a result of the recent introduction of new legislation did not pass unnoticed in Indonesia.[37] Labour activist and non-governmental organizations (NGOs) protested outside the Malaysian Embassy in Jakarta, criticizing Malaysia for their "degrading" and "disparaging" treatment of Indonesian workers.[38] Some proceeded to call for Indonesian workers in Malaysia to embark on a three-day mass strike against deportation plans, while others condemned Malaysia for turning a blind eye to people smuggling activities of their own nationals.[39] Members of the Laskar Merah Putih burned the Malaysian flag outside the Malaysian Embassy in Jakarta and threatened to tear down its gates. Giving further vent to Indonesian frustrations, National Assembly Speaker Amien Rais criticized Malaysia in Parliament and called for Jakarta to take action against the "smaller

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country". In an article bearing the provocative title "Remember *Konfrontasi*", an Indonesian media source launched a stinging attack against Malaysia's actions, arguing that the new policies were far too extreme, and that "there was a time, not so long ago, when Indonesia did not take such a belligerent act from a neighbouring country lying down".[40] In turn, Malaysia responded with a stout diplomatic defence, and later warned its citizens against travelling to Indonesia, and calling for the Indonesian Government to take action against those who threatened to jeopardize bilateral relations with their protests.[41]

Central to the emotionally charged response among Indonesians was the perception that they had been singled out by the Malaysian authorities.[42] On the surface, such concerns, as many Malaysian politicians have maintained, appear to be ungrounded. Indeed, in their fit of passion, several factors seem to have been overlooked by the Indonesians. For instance, the new laws stipulating corporal punishment for illegal workers in Malaysia obviously applied not only to Indonesians, but to other nationalities as well. Furthermore, these illegals, and in particular those who have become, in the words of many Malaysian leaders, a "national security problem", are clearly not only Indonesians. In fact, the first few illegals arrested after the expiration of the Malaysian amnesty dateline in August 2002 were Indians, and in 2001 the Malaysian Government launched a massive manhunt for illegals from Africa who were participating in criminal activities. Thirdly, though the illegal Indonesian workers caught after the amnesty period have been tried, punishment has yet to be carried out. This implies that a window remains open for further diplomatic negotiation to avert the crisis that might follow their intended flogging. As for the "Hire Indonesians Last" policy, one could of course suggest that Bangladeshis are far worse off than Indonesians, for unlike the latter, who are still permitted under the policy to work in the agricultural and domestic help sectors, they have been barred from employment in Malaysia completely. Finally, Indonesians seemed to have ignored the fact that Kuala Lumpur had to some extent already bent backwards to accommodate Indonesian sensitivities. These included the granting, and subsequent extension of an amnesty period, and more recently the decision to re-hire Indonesians who obtain valid work permits.[43] Given these facts, it appears that the Indonesian response, if driven by the perception that they were being singled out for far worse treatment, seems to be misguided.

Having said that, however, there is a case to be made that the Indonesian response is not surprising, given the heavy securitization of the illegal Indonesian immigrant worker problem by the Malaysian

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press and several Malaysian leaders (including the Prime Minister), who have repeatedly berated them for a host of security problems, from rapes to riots to robberies. Indeed, one would have expected that such a portrayal of Indonesian workers would have elicited the heated response it did from the Indonesian media and public.

In order to appreciate the Indonesian reaction, several factors need to be considered. One pertinent issue to that effect is that of hurt Indonesian pride. The fact of the matter is that although Malaysia's problem of illegal migrant workers pertain not only to Indonesians but other nationalities as well (such as Indian, Bangladeshi, Thai, Myanmar, and Filipino), political leaders and the media in Malaysia, by regularly singling out Indonesians as the perpetrators of violence and crimes, have given the impression that it is an "Indonesian" problem. Indonesians, however, are conscious of their role in Malaysia's development and industrial success. That being the case, the nonchalant and oftentimes abrasive treatment meted out to Indonesian labourers by the Malaysian authorities has not been appreciated kindly in Indonesian circles, particularly among those of a Javanese mindset, who for historical reasons have long held patronizing views of the Malays in the region.

Secondly, the intensity of the Indonesian response was indicative of the fact that they had expected some measure of sympathy from their Malay counterparts, which they felt was not forthcoming. Consider the fact that of the various nationalities that have been repatriated or incarcerated following the termination of the amnesty period in August 2002, it has arguably been Indonesians who have reacted most strongly, going by the measure of political statements, street protests, and flag-burning incidents.[44] This has been a result of a long-held belief in Indonesian circles that Indonesia and Malaysia share a "special relationship", both as fellow ASEAN members and as societies that share cultural and religious traits, and that this should in the present context entail extra effort on the part of Malaysia to take Indonesian sensitivities into consideration. In Indonesian eyes, this clearly has not happened. Malaysia's lack of understanding and indulgence on this issue has been manifested in its demand for the immediate repatriation of Indonesian illegal workers, the provision of less-than-respectable holding accommodation for Indonesians awaiting repatriation, and the implementation of a "Hire Indonesians Last" policy. Kuala Lumpur's "securitization" of the Indonesian worker issue by demonizing them as regular perpetrators of criminal activities that threaten Malaysian national security provides further evidence to Indonesian minds that Malaysia's aggressive pursuit of policies towards Indonesian labour was being undertaken with no consideration for the "special

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relationship" that Kuala Lumpur has always claimed to exist between the two "kin states".

Finally, the current tension over illegal Indonesian workers is symptomatic of the extent to which Indonesia–Malaysia bilateral understanding has gradually deteriorated over the past twenty years. One recalls how, in the 1970s, Indonesia–Malaysia relations enjoyed a period of unsurpassed harmony as a result of a policy of "self-induced subordination", orchestrated in Kuala Lumpur by key Indonesian policy-makers, Abdul Razak, Ghazali Shafie, and Zainal Sulong towards Indonesia.[45] In comparison, the Mahathir era of bilateral ties has witnessed a distinct lack of effort to build upon this legacy in order to foster greater policy congruence between Kuala Lumpur and Jakarta. The unofficial bilateral consultation process that defined the Razak and Hussein Onn administrations, exemplified by annual tête-à-têtes between the respective leaders (commonly known in ASEAN diplomatic discourse as "four-eyed" meetings), has also been jettisoned by the Mahathir administration for a more business-like approach to the relationship. A host of recent bilateral problems, such as contested visions of regional order manifested in the early to mid-1990s in Indonesian opposition to Mahathir's East Asian Economic Caucus (EAEC) proposal, and fundamental differences that have emerged in various Track I and Track II forums over the South China Sea, tends to suggest the distinct absence of the *gotong royong* spirit that defined bilateral relations in earlier years. Indeed, it is not surprising that ties have taken a turn for the worse as a result of this recent crisis over Indonesian labour.[46]

The (Continuing) Search for Solutions

The foregoing should not be taken to suggest that no efforts were made on the part of the two governments to find some measure of consensus in the management of the illegal Indonesian migrant worker problem. Indeed, notwithstanding the fundamental nature of bilateral differences that lie beneath this problem for Indonesia–Malaysia relations, periodic efforts were undertaken by both governments in an attempt to contain and control the influx of Indonesian labour.

For instance, an agreement was signed in 1984 in Medan, Sumatra, which stipulated that Indonesia would supply six specific categories of workers for two-year contracts whenever requested by Malaysia.[47] In 1988, Jakarta announced that Indonesians working illegally in Malaysia would be issued passports to provide them "protection and help them earn better pay".[48] Correspondingly, Malaysia announced new laws in 1991 that stipulated stricter penalties for employers of

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illegal immigrant workers as well as a minimum wage and other terms to improve working conditions. Under this scheme, Indonesian illegals, when caught, would still be permitted to work provided they registered with the Malaysian Immigration Department and obtained valid travel documents from the Indonesian embassy. Subsequently, a Memorandum of Understanding (MoU) was signed in 1996 and an Exchange of Notes in 1998 in an attempt to define clearer terms and procedures for the employment of Indonesian labourers in Indonesia. In the aftermath of the most recent crisis in early 2002, both governments have agreed to review the terms of these arrangements, and in the process draft a new agreement.[49]

While these efforts should be applauded, they have done little to stem the flow from Indonesia. Indeed, co-operation has not been without its own obstacles and problems. The bureaucratic nature of the solutions has meant a long and arduous, sometimes even expensive, process of implementation, which has been a burden for immigration departments and too complex for the potential Indonesian illegal migrant to comprehend.[50] Beyond that, many domestic quarters in Malaysia, including government officials, have long been guilty of complicity in facilitating the transportation of illegal Indonesian workers over to Malaysia, and of providing them with accommodation and jobs.[51] Local authorities have seldom, if ever, looked into this aspect of the problem, and corruption remains a substantial obstacle in this respect.[52]

There has also been in the minds of the respective governments the perception that the other has not been doing its part in the joint attempt to eradicate this problem of illegal immigrants. Malaysian authorities have continually highlighted Jakarta's apparent unwillingness to render maximum co-operation in repatriating Indonesian illegal immigrants who were caught or imprisoned for crimes. On its part, Indonesia has argued that Malaysia has been insensitive and unco-operative by demanding the immediate repatriation of undocumented Indonesian labour, knowing that Jakarta itself was undergoing an even greater economic meltdown and could barely provide adequate holding and transportation facilities for returning workers, to mention nothing of providing employment for them.

Necessary Considerations for Long-Term Solutions[53]

The search for a more comprehensive solution requires that the problems of illegal Indonesian migrant workers be addressed at four levels — humanitarian, political, diplomatic, and economic — in order not only to limit (if not stop) its recurrence, but also to contain the potential damage for relations should the problem recur.

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Humanitarian

At the humanitarian level, the conditions of detention centres require much more careful monitoring by the authorities concerned than is the practice currently. A common criticism levelled against Kuala Lumpur, and which could conceivably have been a cause for several riots at detention centres holding Indonesians, has been the appalling conditions at the detention centres. From the perspective of human rights, it has been argued that such considerations in effect add to the victimization of Indonesian detainees.[54] In point of fact, the Malaysian Government itself has long been aware of this problem. In 1995, for example, the government expressed surprise and shock at the death of seventy-one detainees as a result of malnutrition and infectious diseases in the Semenyih detention camp near Kajang, Selangor, and subsequently declared that it would investigate the situation.[55] Conditions in such detention centres — overcrowding, unsanitary environment, and the shortage of food and water, have presented Malaysia in a bad light. While the Malaysian authorities have admitted to the inadequacies of their detention centres to cope with the numbers of detainees, further effort will be required to ensure that detainees are kept under reasonable conditions as they await deportation. In doing so, clear and proper lines of communication are needed between Putrajaya (Malaysia's administrative capital since 1999) and the various detention and deportation centres in Malaysia, to ensure that instructions and feedback can be relayed without delay or hassle.

The Indonesian authorities too, have to shoulder a certain measure of responsibility for the plight of their workers returning from Malaysia. The Indonesian Government has admitted that Jakarta had been unprepared and slow to respond to the crisis surrounding the repatriation of its workers from Malaysia, despite being aware of the potential scale of the repatriation.[56]

Political

Political will is also needed to ensure compliance with and implementation of laws dealing with the problem of illegal immigration that have been in place for a long time in Malaysia. One reason for the persistence of the problem lies in the fact that immigration laws have not been enforced diligently. Both Kuala Lumpur and Jakarta need to ensure that not only should the illegals be interdicted and penalized, but also those who have facilitated their entry to Malaysia.[57] In particular, laws against the employers of illegal immigrant workers have to be enforced. Of equal import is the need to penalize oblivious local authorities and accomplices who have assisted in the transportation and accommodation of these workers, including employers who prefer

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to engage "illegals" rather than legally recruited migrant workers in order to avoid payment of fees related to the employment of foreign labour.

Border patrols too, either unilateral or bilateral, have to be increased, and co-operation between Malaysian and Indonesian police and armed forces strengthened on this front. Indeed, a mechanism already exists in the form of the General Border Committee, created after Confrontation as a joint military effort to deal with communist insurgents in Borneo. Similar co-operation should be strengthened in relation to the control of travel across the East Malaysia–Kalimantan border in Borneo. A policy of minimum wages would not only provide better working conditions for Indonesians, but also entice prospective "illegals" to consider entering Malaysia as documented workers instead.

Finally, government policies will also have to be more carefully considered and plotted before implementation if confusion and embarrassment are to be avoided. A pertinent case in point was Malaysia's flawed "Hire Indonesians Last" policy. The policy, undertaken without consultation with the Malaysian business community, betrayed a fundamental misunderstanding of its structural ramifications on Malaysian industry. Consequently, the sudden shortage in the labour force compelled Kuala Lumpur to re-examine the policy. The fact that the policy was eventually revised indicated that the policy had not been thought through carefully.

Diplomatic

Together with the political aspects of the problem, diplomatic efforts will be required in the search for and implementation of any prospective solutions. Central to this enterprise is the need for better communication between Kuala Lumpur and Jakarta, which was sorely missing during the recent repatriation exercise. Malaysia's decision to embark on a "Hire Indonesians Last" policy, for example, was undertaken without prior consultation or negotiation with Jakarta, and such unilateral action was not appreciated by the latter. Diplomatic consequences were further aggravated by the fact that the policy proved untenable, and had to be rescinded, somewhat embarrassingly, by Malaysia.

There is a need also for both Mahathir Mohamad and Megawati Soekarnoputri as leaders of the respective countries to express a personal interest in the problem of illegal Indonesian migration in order to strengthen these diplomatic channels. One effective means to ensure better communication is to have a "hotline" or direct channel between the heads of government in order to diffuse potentially difficult bilateral situations. However, such a channel — used to great effect when Philippine President Gloria Arroyo personally contacted Mahathir

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Mohamad immediately to discuss the repatriation of Filipino workers — is conspicuously absent in Mahathir–Megawati relations.

Beyond that, there is a need for a comprehensive bilateral arrangement between Kuala Lumpur and Jakarta that can effectively address this problem of illegal workers and immigrants. Despite the persistence of this problem that has plagued Indonesia–Malaysia relations during the past decade, consensus remains elusive. While agreements already exist in the form of the 1996 Memorandum of Understanding and 1998 Exchange of Notes, both governing the issue of illegal Indonesian migrant workers, it is clear that the recurrence of the problem is indicative that these arrangements were agreed upon on an *ad hoc* basis, without much direction towards something more conclusive. Most recently, two attempts to reach common ground at the highest levels of government were made during Indonesian President Megawati Soekarnoputri's visit to Malaysia in August 2001 and the Mahathir–Megawati Summit meeting in Bali on 7–8 August 2002, but both failed in the search for a solution that satisfied both parties. While it is heartening to note that Jakarta and Kuala Lumpur have agreed to discuss another Memorandum of Understanding which would set guidelines for the handling of Indonesian workers in Malaysia, whether or not this forthcoming MoU will amount to anything more than another stop-gap measure will depend on the willingness of both parties to make concessions on the issue.

In the meantime, there has been an over-emphasis on the "securitization" of the illegal Indonesian migrant worker problem in the Malaysian media and by certain Malaysian authorities, and which has not helped bilateral relations. While it might be true that Indonesian migrant workers have contributed to the crime rate, and in that respect have somewhat posed a threat to Malaysia's "national security", an unhealthy over-emphasis on this aspect of relations, particularly in the Malaysian press but also in comments by parliamentary back-benchers, cannot but add fuel to the fire.

Economic

Popular opinion has suggested that the structural cause of the illegal Indonesian migrant worker problem is economic, arguing that the problem is driven, and will be aggravated by, the conditions of Indonesia's economy.[58] There is some measure of truth to this train of thought. Indeed, Indonesians must realize that part of the reason behind this problem that plagues relations with Malaysia is rooted in their own economic stagnation. Any attempt on their part to control the flow of labour out of Indonesia into Malaysia will thus be closely entwined with Jakarta's own economic performance and the availability of jobs in

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Indonesia.[59] On this front, Malaysia has a role to play, as has the rest of ASEAN, in encouraging investments, as well as increasing their own economic interests in Indonesia.

Having said that, however, one must also realize that the influx of illegal Indonesian workers had been identified as a "security problem" by Malaysian authorities as early as the late 1980s, and the impact of this phenomenon on Malaysian society has throughout the 1990s continued to be framed in terms of its "security threat". These were also the years when the Indonesian economy was much healthier, and comparatively stronger, than its current state. In other words, one should be careful not to use the causal link between Indonesia's economic performance and the outflow of illegal immigrants as the key explanatory factor for this problem of the Indonesian illegal migrant worker in Malaysia.

Conclusion

Ultimately, while it is true that as a sovereign nation, Malaysia reserves the right to punish those who have breached its borders, either via fines, imprisonment, flogging, or deportation, there is also the matter of diplomatic tact that is involved. This is particularly so where relations with Indonesia are concerned, for both are believed historically to share a "special relationship". Essentially, and in the spirit of ASEAN diplomacy, Malaysia should keep Jakarta informed of new legislation that obviously would impact most on Indonesians, or of any intention to take particular action on issues that concern Indonesians. Likewise, Jakarta's recognition of its own role in this problem and co-operation in supporting Kuala Lumpur's move to clamp down on illegal Indonesian migration will be critical to the success of such attempts.

Whatever the solutions Indonesia and Malaysia agree on, the fact of the matter is that Indonesian workers, whether legal or illegal, have long been, and will remain, a vital component of the Malaysian economy. In this regard, the failure of Kuala Lumpur's attempt at implementing a "Hire Indonesians Last" policy can hardly be surprising. Similar attempts to stop the recruitment of certain categories of labour had been experimented with before, with little success.[60] These attempts, however, did little more than highlight the Malaysian economy's reliance on Indonesian labour, while aggravating brittle Malaysia–Indonesia ties.[61] One can be relatively confident that even with substantial economic recovery in Indonesia (an unlikely prospect in the near future), Indonesians will continue to stream into Malaysia in the hope of better employment prospects. For now, the Malaysian commercial and industrial sector has already begun to lament the reduction in the pool

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of foreign labour as a result of the government's repatriation policy, prompting a policy reversal in Kuala Lumpur.[62] Indonesian workers, as many in the Malaysian private sector have acknowledged, come cheap, speak the language, and are readily available. Indonesians, too, know that they are indispensable to the Malaysian economy, with or without work permits. Whether or not the attempts to control and/or curb the influx of illegal Indonesian workers will be effective will ultimately depend on the political will and resolve of Kuala Lumpur and Jakarta to look beyond their differences and co-operate in dealing with a recurring problem that plagues both societies and threatens to destabilize bilateral relations. It was heartening that despite domestic pressure, the Indonesian Government resisted launching a diplomatic offensive against Malaysia. It was also noteworthy that amidst President Megawati and Vice-President Hamzah Haz's calls for restraint, several Indonesian parliamentarians criticized Amien Rais' comments, arguing that "all parties should not take Indonesia's National Assembly Speaker Amien Rais' outburst as a reflection of the souring of relationship between both countries".[63] Furthermore, in a meeting between the youth movements of UMNO (United Malays National Organization) and the PPP (Parti Persatuan Pembangunan) in August 2002, both expressed their belief that there were parties in Indonesia who were deliberately using this crisis to sour relations between the two states, but their view represented only a small minority of Indonesian popular opinion.[64] It would serve the best interests of both governments to realize the need for continued discussion and co-operation, rather than finger-pointing and sabre-rattling — and put into practice the ASEAN spirit of *gotong royong* and *mushyawarah* and *mufakat* that, ironically, both were instrumental in fostering as founding members of the regional grouping in 1967.

NOTES

1. See, for example, Firdaus Abdullah, "The Phenomenon of Illegal Immigrants", *Indonesian Quarterly* 21, no. 2 (1993).
2. See Azizah Kassim, "The Unwelcome Guest: Indonesian Immigrants and Malaysian Public Responses", *Southeast Asian Studies* 25, no. 2 (1987); Azizah Kassim, "Masalah Tenaga Kerja Indonesia di Malaysia" (Paper presented at "Identifikasi Masalah Tenaga Kerja Indonesia di Malaysia dalam Konteks Pembinaan Sumber Daya Manusia" Seminar, Kuala Lumpur, 22 August 1997); chapters by Ida Bagoes Mantra and Riwanto Tirtosudamo in Sukamdi, Abdul Haris, and Patrick Brownlee eds., *Labour Migration in Indonesia: Policies and Practices* (Jakarta: Gadjah Mada University, 1998); Sidney Jones, *Making Money Off Migrants: The Indonesian Exodus to Malaysia* (Hong Kong: Asia Limited, 2000); Arif Nasution, *Orang Indonesia*

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

Catching the Dragon's Tail: China and Southeast Asia in the 21st Century

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Relations between China and ASEAN have become critical as the ten Southeast Asian nations face the challenge of proximity to an emerging superpower. In the modern context, China is often viewed as a threat to Southeast Asia on account of its growing economic pre-eminence and presumed expansionist aspirations. However, many countries in the region view relations through a more benign historical prism, one that reflects on China as an arrogant but benign partner, from which the commercial advantage was mostly in favour of the Southeast Asian states. The case of Thailand is instructive because of the much longer history of close ties, both in the historical and modern period. Thailand is moving ever closer to China under the present government, and this is having a distinct impact on Thai culture and policy. And while China does appear to be trying to expand its influence on mainland Southeast Asia, seeing Thailand as a key ally, there is an instinctive reflex on the part of the Southeast Asian states to seek a strategic balance in their economic and political ties.

Introduction: China's Role in the Post-Cold War Era

One of the most enduring confrontations of the last half of the twentieth century was that which pitted non-communist Southeast Asia, backed by the United States, against communist China and its proxies. Europe had its "iron curtain", so Asia had the so-called "bamboo curtain". Tens of thousands of men and women died in wars and insurgencies

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that supposedly kept China in check. Military governments were promoted and protected; dictators were coddled, and freedoms were suppressed — all in the name of battling communism.

The Cold War may be over, but China's presence looms if anything larger and a key question for everyone is what a stronger, wealthier, and developed China means for the region. If history is any guide, there is more to gain and less to worry about. For centuries the old Southeast Asian kingdoms and principalities regarded powerful imperial China as a source of prosperity and lucrative trade rather than an expansionist threat. Although they bridled at Chinese imperial arrogance and paternalism — the rituals of tribute and recognition that were central to Chinese dealings with its "barbarian" fringe — countries in the region enjoyed formal relationships with China that generally resulted in commercial gain.[1]

The end of formal imperial rule in China and the long period of turmoil that eventually led to communist rule first modified and then, briefly, interrupted this profitable exchange. Not insignificantly, this was also a period when large numbers of Chinese migrated to the region, settled, and integrated with their host societies. With the opening of China's economy from the late 1970s, commercial ties resumed. Today, trade between the ASEAN states and China is on track, being greater in some countries of the region than trade with Europe and the United States.[2]

Yet, as the ASEAN countries hurry to cement commercial ties, seek investment opportunities, and tap into China's vast market, contrasting views of this development persist. On the one hand, there are those who see Southeast Asia's economic future umbilically tied to China. Then there are those who warn that sovereignty and prosperity may be threatened by drawing too close to a nascent empire "reinventing a 2,500 year old autocracy to control its population and hector non-Chinese neighbouring peoples".[3]

These contrasting views of China's burgeoning ties with Southeast Asia, one exuberant and hopeful, the other dark and full of foreboding, mask more sober perceptions commonly heard within the region's business community. Firstly, the region has never relied on a sole market or source of trade, well-positioned as it is to benefit from the flow of trade between east and west. Moreover, no one assumes that China's market alone will guarantee everyone's economic security. The United States remains the region's single biggest destination for exports, and will be for some years to come. China's economy is still only about 10 per cent of the total size of the U.S. economy. Moreover, problems of market saturation, price wars, and the rise of able local competitors are all seen on the horizon in China. Much as the region's large

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conglomerates like to see China as a real opportunity, they are equally interested in exploring opportunities in India. Nor would it be prudent to bank on China's enduring political and economic stability. China faces the daunting task of cleaning up a hugely indebted banking system within the next five years, before WTO (World Trade Organization) rules force open the financial sector. Both a cyclical economic downturn and a mini-financial crisis are possible.

Set against these economic pressures, it is hard to imagine that the Chinese Communist Party can maintain its monopoly on power forever. With political change and reform, some form of federalism or devolution of power could fragment and dilute the current scope of Chinese power. Moreover, from a Southeast Asian perspective, governments and the business community in the region are all too aware of the need to avoid putting all their eggs in one basket. There is a long tradition of striking a strategic balance in economic and political ties — the best example of which, arguably, is Thailand.

For this reason, it is risky to assume, as many American observers do, that in any future superpower contest between China and the United States, the rest of this region will take sides. During the Cold War of the mid-twentieth century, that was a given because of the fragility of newly-independent states, their dependence on Western aid and trade, and the Chinese Communist Party's active policy of subversion overseas. The ideologically-driven Cold War may be over, but brewing out there is a new contest rooted in more visceral American fears of China's domination in Asia. China is already the largest economy in Asia (apart from Japan), and military spending (already expanding by more than 10 per cent annually) will surely grow with the expansion of its gross domestic product (GDP). "Strategic rivalry", to use the term first coined by the current Bush Administration, would pit China's non-communist and mostly pro-democracy and free market neighbours against a ruling Chinese Communist Party groping slowly towards these goals. It goes without saying that the outcome would greatly affect the stability of Asia. Thailand is especially exposed to risk here and will come under pressure to take sides; it remains a close treaty ally of the United States, and is regarded by China as a most trusted and special friend. History tends to repeat itself.

China: Economic Juggernaut or Floundering Whale?

There is much debate in academic circles about whether China is an upcoming economic juggernaut or a floundering whale. China boosters point to sustained high rates of GDP growth, the highest levels of foreign domestic investment in the world (exceeding US$50 billion in

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2002), and the potential spending power of China's consumers. In this camp, there is scant concern about a systemic political crisis, as the ruling Communist Party transforms itself from a revolutionary leveller of society into an old-fashioned capitalist-backed oligarchy. China detractors highlight the credit growth that outstrips GDP, alarming levels of non-performing debt in the banking system, and a looming social crisis fuelled by migration and unemployment. A key risk for supporters of this view is that social and economic instability will precipitate a catastrophic political crisis. For Southeast Asia, and increasingly the global economy, there is much at stake on how this debate is resolved.

At present, with a leadership change and revamping of state institutions under way, China's short to medium-term course seems set. There is no indication that the new leadership of China, under the watchful gaze of the old guard, is either speeding up or slowing down the gradual pace of reform, which is slowly eroding the country's creaking state sector and exposing markets to greater competitive forces. A key priority for China is to consolidate and safeguard economic growth. Harmonious relations with the United States are desired, and with regard to Asia, China seeks to promote an image of being able to handle its greater economic and strategic clout responsibly. Therefore, it is likely that confrontation with the United States will be avoided, reunification strategies towards Taiwan will focus on economic rather than military options, and all dealings with Asian friends and neighbours will stress China's benevolence and, where possible, generosity. In other words, in a scenario of continuing growth and development, China wants to play a constructive role in regional economic and political affairs, perhaps with a view to building a stable foundation for greater influence in the future.

China's Investment Diplomacy: The Thai Response

Most ASEAN states, like Thailand, have calculated that drawing closer to China politically brings tangible economic benefits — thus implying confidence in China's stability. In Thailand, this policy has been in hand for some time now, but has been given greater impetus under the current government led by Prime Minister Thaksin Shinawatra. The case of Thailand with respect to China is instructive because, unlike other ASEAN states such as Malaysia, Indonesia, and by curious extension Singapore, there are no local factors distorting the political and commercial response to China as a growing power. Indonesia's military rulers relied for decades on an exaggerated communist threat that delayed normalizing ties with Beijing until 1991; Singapore waited for Indonesia to normalize relations out of deference to the larger

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neighbour. Malaysia has its own racial and religious preoccupations, which has held up closer ties with China.

Thailand restored diplomatic relations with China at the height of the Cold War in 1975 — more than a decade before either Indonesia or Singapore. Thai companies were pioneer investors in China after the economy opened up in the late 1970s. It became fashionable, and acceptable, to learn Chinese, and travel to China. Thailand's sizeable overseas Chinese community, long pressured to assimilate and lose its Chinese identity during the Cold War, now found its ancestral motherland more appealing.[4] For some years after the opening of China's economy in the late 1970s, the Charoen Pokphand Group (CPG), Thailand's biggest conglomerate, was the largest single foreign investor in China. Together with other Southeast Asian business groups from Indonesia, Singapore, Malaysia, and the Philippines, the CPG forged among the earliest tie-ups with Chinese state enterprises and government bodies, testing the outer limits of the country's early investment environment. Today, the CPG has more than 200 companies, 30,000 employees, and is making a deep foray into the lucrative retail market.[5]

China has played this investment-led diplomacy shrewdly, parlaying close commercial and diplomatic ties with Thailand into a wider initiative to draw ASEAN into dialogue. Thailand initially helped to persuade reluctant regional partners to engage with China in a first formal official dialogue in the mid-1990s. China first attended the opening session of the annual ASEAN Foreign Minister's Meeting in July 1991 as a guest of the host, Malaysia. In July 1994 in Bangkok, two Joint Committees (one on economic and trade co-operation and the other on co-operation on science and technology) were established. In addition, in 1994, ASEAN and China agreed to engage in consultations on political and security issues of common concern at the Senior Officials level. In July 1996, China was accorded full Dialogue Partner status at the 29th ASEAN Ministerial Meeting (AMM) in Jakarta, Indonesia.

Being a good friend of China on the diplomatic stage comes with rewards. When Thailand's economy collapsed in 1997, China was among the first to rush in with an offer of aid — US$1 billion in standby credit. Even if a token sum was involved, Beijing's unqualified support and sympathy was at odds with discordant noises from Washington that castigated the Thai Government for poor economic management, and withheld offers of aid. Significantly, Japan also rushed to Thailand's help, hosting the emergency meeting of donors in July 1997 and floating the idea of an Asian Monetary Fund (AMF). Unlike China, however, Tokyo's hands were tied by its institutional links with the World Bank and International Monetary Fund, and thus, the AMF idea was stillborn. The way Thai government officials pointedly contrasted the hurtful

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shrug-off from Washington with Beijing's warmth and sympathy came as a rude shock to those who had dismissed China's overtures to the region as shallow and rhetorical. No matter how little the gesture cost Beijing in financial terms — much of the aid ended up being tied to trade concessions — it was a carefully calibrated gesture, steeped in the traditional paternalistic concern of the old Imperial China.

Japan has also enjoyed close ties with Thailand and other ASEAN states, having poured billions of dollars of investment into the region since the 1960s. While China struggled to recover from the political and economic costs of the Great Leap Forward and Cultural Revolution, which saw ties with Southeast Asia at their lowest ebb, Japan was busy pumping aid and investment into the region. Several factors explain why this effort has not left a lasting legacy. Firstly, Japanese aid and investment have declined, and so has its political influence in the region. Obviously, Japan does not have as long or deep a cultural connection with the region. During the period when China was building trade and political ties with pre-colonial Southeast Asia, Japan's trade with the region was thinly spread, highly regulated, and often conducted by foreign intermediaries. For the past decade, Japan has been in economic decline, and thus its impact has been on the wane, and the reluctance to play an overt security role helps to diminish the country's footprint. There was a time in the late 1980s and early 1990s when Japan started exploring joint political and strategic initiatives in Southeast Asia, and indeed it was a Japanese idea to fashion ASEAN as the core of a regional security forum that was eventually created under ASEAN auspices. These efforts have always been hampered by Japan's own ambivalence towards the region. Always eager to exploit cheap labour, Japanese companies were not inclined to transfer technology or ownership. Eager to project an Asian policy, Japanese political leaders fell well short of assuming much of a leadership role, because of lingering sensitivities about Japan's wartime occupation of the region.

Quite apart from its long historical ties, Thailand's contemporary disposition towards China is more favourable than most other ASEAN states for a number of reasons. Thailand does not have any territorial disputes with China, unlike Malaysia, Vietnam, and the Philippines, which dispute island territory and sea boundaries in the South China Sea. Thailand's sizeable ethnic Chinese population is well integrated in society and ties with China are not a factor in ethnic political or economic considerations, as they have been, for example, in Indonesia and Malaysia. Even Singapore, with its majority Chinese population, feels it must tread carefully with China so as not to alarm its Malay and Muslim-dominated neighbours. In fact, ever since the end of the Chinese-backed communist insurgency in Thailand at the close of the 1980s,

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ethnic Chinese identity has been reasserting itself in Thailand. The trend is likely to intensify under the leadership of Thaksin Shinawatra, who comes from a wealthy and overtly Sino-Thai family.

It is also interesting to note how culture and history have played a low-key role in helping to draw Thailand and China closer. Cultural commonalties are stressed in the background: carefully calibrated contacts with the royal family hark back to the old tributary relationship and common religious beliefs; Beijing has sent a sacred tooth of the Buddha. King Bhumipol Adulyadej has not ventured overseas in years, but the Queen spent ten days in China on an official tour in 2001, during which the Chinese leadership reportedly paid rare and constant attention to the royal party. More recently, Princess Sirindhorn, the King's popular daughter, completed a course in Chinese at Beijing University. The use of culture as a tool of diplomacy highlights the sense of theatre that China skilfully deploys to exaggerate bonds that barely exist.

Although slow to perceive Thailand's embrace of China at first, the United States has found it a little unsettling. In the mid-1990s there was a rare rebuff of military ties when Thailand turned down a request from Washington to station munitions on ships in the Gulf of Thailand. Although unspoken, China is thought to have raised quiet objections and Thailand thought it best to comply. After the end of the Cold War, Thailand for some reason opted to join the Non-Aligned Movement — a move that could be construed as making Beijing feel more comfortable about its southern flank.

Since then, there have been a number of incidents when Thailand has resisted behaving like a faithful ally of the United States — despite continued commitment to the largest military exercises that U.S. forces conduct in the region. When it came to that most critical of tests for the United States in this region — a response to the 11 September 2001 terrorist attacks on New York and Washington — Thailand was the one country in Southeast Asia that initially wavered in its firm and utter commitment to the war against terror. It is an incident that still rankles in Washington and no doubt raises a wry smile in Beijing.

ASEAN Policy: Accommodate, Not Confront China

Meanwhile, despite the differences in attitudes towards China outlined above, other countries in this region have followed in Thailand's footsteps — largely out of economic self-interest. Singapore is in the forefront with a policy to attract Chinese companies to the island republic, offering sweet terms for listing on the stock exchange, and help with accessing global export markets. Indonesia is banking on the

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long-term supply of energy to China, which now has controlling stakes in about 5 per cent of the country's oil and gas reserves. Even in Malaysia, Prime Minister Mahathir Mohamad has told Malaysian firms that they should "ally themselves with Chinese manufacturers in areas where the Chinese have technological advantages as this would help them penetrate the Chinese as well as regional and global markets".[6]

Supporting this quest for closer economic and commercial ties, in diplomatic fora, ASEAN has sought to accommodate rather than confront China on issues that were divisive in the past. The two sides agreed in 2002 to a code of conduct covering the disputed boundaries in the South China Sea — a framework that is largely favourable to China because it does not involve yielding on any claims. There has also been a subtle but noticeable shift towards more exclusive Asian leadership forums such as the "ASEAN Plus Three" framework, which includes China, Japan, and South Korea at annual summits, and leaves the United States and Europe more or less out in the cold. Again, this is something that China quietly approves of and encourages. Finally, China has secured an agreement to move towards the creation of an ASEAN-China free trade area within a decade.

China's strategy, meanwhile, is to declare that its policy is to encourage outward investment and foster economic prosperity for the whole region. Critics decry the absence of concrete action amidst all the rhetoric — although China's Ministry of Foreign Trade and Economic Co-operation (MOFTEC) did announce new policies to encourage Chinese companies to set up assembly plants overseas in February 1999. Frankly, it is too early for most Chinese companies to consider outward investment on a large scale in the region. Figures from UNCTAD (United Nations Conference on Trade and Development) value outward investment from China at a little under US$30 billion, and official MOFTEC figures show ASEAN accounting for less than 7 per cent of foreign direct investment (FDI) from China —most of this going to Thailand, in fact. The priority for now is China's economic security, which explains why substantive investments have focused on the energy sector in places such as Indonesia, Papua New Guinea, and Australia.

That is not to say that outward investment from China will not impact the Southeast Asian economies. The next wave will be led by larger homegrown conglomerates such as Haier, Legend, and Huawei making pinprick investments in the region, perhaps in order to be closer to a market that has sustained high rates of domestic consumption, and to escape rising labour costs at home. The average annual wage of an electronic engineer in mainland China has risen 16 per cent in just 2002. Chinese engineers also work shorter average number of hours than many in Asia, at 49 hours a week. In the ASEAN countries,

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salaries have decreased by 8 per cent, to US$15,189. While the average annual salary of engineers in mainland China remains the lowest in the region at US$8,136, they are earning US$1,100 more than they got twelve months ago.[7] Chinese financial institutions will follow, especially once the renminbi becomes a convertible currency, to help service Chinese corporations, just as Japanese banks did for Japanese companies in previous decades.

For this reason, the notion that China will forever be sucking the investment lifeblood out of Southeast Asia seems shortsighted. True, there has been a recent hollowing out of some lucrative sectors, particularly in light manufacturing and intelligence technology (IT). A closer look at the data, however, shows that foreign investment in some ASEAN states, among them Thailand, has been growing steadily, not falling.[8] In the longer term, investment will wash back out of China once wages rise and Chinese manufactures, like their Western predecessors, need to locate plants closer to the markets they serve. Some multinationals are already talking about the need for a dual location policy as an insurance against economic trouble or political unrest in China.

China: Threat or Opportunity?

For all the sense it makes for China and Southeast Asia to bond more closely in economic and commercial terms, there is still a fear in some quarters that China may be more of a threat than an opportunity for the region. Within the region, this takes the form of concerns about China's strategic objectives in countries such as Myanmar, where there is stepped up military co-operation, a Chinese-funded road-building programme, and even evidence of military listening posts on islands off the Andaman sea coast. In areas close to China's borders, the Chinese currency (renminbi) is fast becoming a predominant medium of exchange, a trend, some regional diplomats say, that reflects China's desire to use its economic clout to strengthen influence in the region. China, for its part, presents itself as a land of economic opportunity and has even coined a new term in Chinese to represent the notion of a "win-win" situation; the ASEAN-China free trade area will be "win-win", as will the benefits flowing from China's accession to the WTO in 2001.

Once economic and commercial arguments are put aside, what is the guarantee that China will not make use of access through Southeast Asia's mainland states to secure strategic military objectives? If China is a benign and fraternal power, why does it refuse to yield on far-flung territorial claims in the South China Sea? Lurking in the back of many people's minds is the fact that in 1996 China lobbed missiles into the

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Taiwan straits as the island moved to consolidate its democracy. Was this an act of a benign superpower with no imperial aspirations? In some quarters in Washington, there is a firm conviction that because of America's support for freedom and open markets, the rest of Asia will side with the United States in the event of a confrontation. "If China goes bad," one former Pentagon official said recently, "democratic states in Asia will go with the United States".[9]

Clearly, China is an emerging superpower, but is China a threat to regional peace and stability? All superpowers are potential threats to stability because superpowers end up using their power to achieve strategic ends. Through the historical lens Southeast Asia uses to understand relations with China, there is a danger in putting too much store by the legacy of quaintly benign traditions such as the tributary system. Ancient imperial threats to invade and crush those who failed to recognize the Son of Heaven may have been hard to execute in the Tang and Song dynasties, but today's military technology is all about long-range ballistic missiles and electronic eavesdropping. Modern, emerging China has shown its willingness to use threats of withholding aid and investment, quite like the way the United States wields the threat of sanctions. When Indonesia hosted a visit by Taiwan's Vice-President Annette Lu in late 2002, Indonesia's access to the lucrative natural gas market in China hung in the balance. Seeing this, in the minds of many American policy-makers, there is a perception that much of Asia ought to be cringing before the prospect of China as a great power. This simply is not true.

China's Expansionism in Southeast Asia: Prospects and Limits

Most of China's littoral states do not perceive China as an expansionist state in the conventional sense. The way they see it — and Vietnam is a clear exception here — China has traditionally demanded unqualified recognition of its cultural supremacy in return for access to its markets and resources. From the ancient chronicles, we read of Chinese emissaries endowing legitimacy on peripheral states and interfering in inter-state rivalries. When the eunuch Cheng-Ho, in his capacity as an imperial envoy, raised Malacca to the status of a city, a Chinese chronicler wrote: "Henceforth the Siamese dared not venture to attack it."[10] Diplomatic hubris and bravado — but hardly an invasion, much like the way Beijing today hurls sharp words at nations that entertain high-level Taiwanese leaders and demands compliance.

More fundamentally, there is a perception in much of the region that China has not historically been a colonizer, in the conventional sense, in Southeast Asia. Demands for recognition did not result in the

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extinguishing of sovereignty the way Britain emasculated the Burmese monarchy in the mid-nineteenth century, for example. China has not sought to Sinicize non-Sinitic peoples — Vietnam, Xinjiang, and Tibet being ambiguous exceptions. To many Southeast Asians, all China wants is to secure its own rather ambiguous borders and keep, as they say, the barbarians out.

Of course, from a modern perspective, this does not seem right. China crossed the Yalu River in North Korea half a century ago to fight U.S forces. China claims the South China Sea all the way up to the shores of Luzon, and it has become so agitated when friendly countries cross certain red lines that the response has verged on interference in domestic affairs — as seen recently in Thailand when the government was forced to admit to complying with a Chinese request to monitor activities by the Falun Gong sect. The reality is probably somewhere in between. China probably cannot and will not range far from its shores militarily, and will almost certainly be preoccupied with internal development and cohesion for decades to come. There are also cultural inhibitors when it comes to expansion; as one senior ASEAN official put it: "Unlike Americans, Chinese don't embrace foreigners — you cannot "become Chinese".[11]

However, this does not mean that China will not seek to leverage cultural affinity with the extensive network of ethnic Chinese who dominate the economic and, in some countries like Thailand, increasingly the political scene. It would be naïve to believe that China is not interested in exerting a dominant influence over its regional hinterland; commercial and financial muscle will eventually be the levers of choice — perhaps spearheaded by a strong regional currency. As much as the Chinese may be more ethnically exclusive than Americans and some Europeans, they are every bit as eager to see Chinese culture and traditions adopted by others — as a mark of civilization. As more and more Chinese tourists visit the region and even begin to dominate the tourist trade, the service sector response will be to tailor to Chinese taste and custom. This will inevitably result in a revival of Chinese culture and language in local communities once believed to have assimilated. Already one of the fastest growing Chinese language media groups is based in Malaysia, where Chinese language education has an unbroken history of more than a century. Up to the present, businesses have catered to a culture that projects modernity and sophistication in a Western guise — this could change and have an impact on U.S. and European influence overall.

In the longer term, if China experiences another period of instability and upheaval, it is also quite possible, with visa restrictions relaxed and cultural barriers eroded, that another wave of Chinese immigration

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could occur in Southeast Asia. It was not just the demand for coolie labour in the nineteenth century that brought hundreds of thousands of immigrants from Canton and Fujien to Thailand, but also the imperative of escaping endemic hardship and instability as the Qing dynasty collapsed. Today, it can be expected that even a gradual move towards devolution or a form of federalism that loosens central control in China would release flows of migrants seeking opportunities along China's borders. One fear voiced in Thailand is that the Chinese Government is keen to stem the flow of migrants eastward towards the crowded metropoli of Beijing and Shanghai; instead, the much-trumpeted "Go West" campaign is seen as pulling jobless migrants closer to the borders of relatively more prosperous Southeast Asia.

With all these factors in mind, governments in Southeast Asia are adapting to the shifting winds of economic and geopolitical change. However, it will be important to balance the rising influence of China with the still potent economic and military power of the United States. As well as accommodating great powers, Southeast Asian states have traditionally been great balancers of the shifting strategic winds buffeting the region.

China's increasing influence in the region has already justified some moves towards strengthening military and trade ties with the West. Singapore has built a berth for the U.S. Seventh Fleet, and is putting the finishing touches to a ground-breaking Free Trade Agreement with the United States. Thailand continues to host the annual "Cobra Gold" exercises with U.S. armed forces — to which China, incidentally, has been invited as an observer. On the trade front, Thailand has been assiduous in its courting of India as a dialogue partner in ASEAN, and a key promoter of close ties with the littoral states in the Bay of Bengal.

Yet more recently, Prime Minister Thaksin has been criticized at home for bending too far to Beijing's will, something that suggests that, much like relations with other superpowers, the closer ties with China become, the more subject they would be to political debate and dissent — and therefore to the same balancing impulses. When in January 2003 Thaksin's government ordered that visas granted to a group of visiting Taiwanese legislators be revoked just ahead of a visit to Bangkok by a senior mainland Chinese official, the local media said that this reflected "fear of upsetting the giant in the north".[12] The view was also expressed that even China would be upset with a government over-eager to please Beijing — and thus feeding into perceptions of China as a regional menace. "China has been very concerned to tread fairly softly as its power grows," remarked Kavi Chongkittavorn, a Thai expert on foreign affairs.[13]

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Conclusion: Bangkok's Indicator Role in China-ASEAN Relations

In conclusion, it might be argued that Thailand is a leading indicator of China's growing influence in Southeast Asia. The country has attracted outward investment from China, has played a role in brokering a closer relationship between China and the region, and demonstrated a willingness to support China's diplomatic and economic ambitions. Over time, this has meant a slow shift away from Thailand's Cold War era reliance on ties with the United States, and it will almost certainly mean in the future that China could eclipse Japan as the country's leading source of investment. However, Thailand's traditional aversion to domination by any one power also offers a useful guide to other countries in the region as to how that influence can be harnessed safely to the best advantage. In the future, it will be interesting to watch how Thailand takes advantage of the much closer ties with China, possibly by leveraging economic and commercial gain from India and Japan, a well as the United States and Europe. In other words, it would be naïve to assume that Southeast Asia will so easily become a neutered satrap or client of China. Steeped in a long historical experience of dealing with a powerful imperial China, the region is well equipped for the emergence of China as a superpower in the twenty-first century. Thus, it would be instructive to watch the way Southeast Asia manages to recreate its old historical role as a mediator and commercial interface with China — largely to the region's economic advantage.[14]

NOTES

1. The best discussion and detailed analysis of this medieval trade with China can be found in Sarasin Viraphol, *Tribute and Profit: Sino-Siamese Trade 1652–1853* (Cambridge: Harvard University Press, 1977).
2. The ten ASEAN countries enjoyed a trade volume of US$41.6 billion with China in 2001, a 53 per cent increase from US$27.2 billion in 1999.
3. Ross Terrill, *The New Chinese Empire* (New York: Basic Books, 2003), p. 3.
4. Michael Vatikiotis, "SinoChic: Suddenly it's cool to be Chinese", *Far Eastern Economic Review* (*FEER*), 11 January 1996, p. 22.
5. Private communication with CPG executives, October 2002.
6. Dr Mahathir Mohamad's speech at the opening of the Malaysia–China Economic Conference in Kuala Lumpur on 8 October 2002.
7. These are some of the results to be found in the Electronic Engineering Times-Asia (*EE Times-Asia*) salary and opinion survey for 2002, announced by Global Sources Ltd., 9 October 2002.
8. "China as Potential Superpower: Regional Responses", by Manu Bhaskaran for Deutsche Bank Research, 15 January 2003.
9. Private communication in Washington D.C., September 2002.

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10. Harry J. Benda, *The World of Southeast Asia: Selected Historical Readings* (New York: Harper and Row, 1967), p. 15.
11. Interview with George Yeo, Singapore's Minister of Trade and Industry, in Pulau Pangkor (Pangkor Island), Perak, in July 2002.
12. *Bangkok Post*, 22 January 2003.
13. Quoted in *South China Morning Post*, 23 January 2003.
14. This article is derived from a paper presented at the Nation Group's "Future With China" Conference, Bangkok, 17–18 October 2002.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

India and Southeast Asia: Revisited

FAIZAL YAHYA

In November 2002, the Association of Southeast Asian Nations (ASEAN) held its first summit with India in Cambodia. This article examines whether the ASEAN–India Summit could be considered as a successful outcome of India's engagement strategy with Southeast Asia through its "Look East" policy. The diplomatic overtures and actions by India to cultivate the Southeast Asian region were clearly visible when Indian Prime Minister Vajpayee visited the Southeast Asian region several times in 2001. The article argues that India's "Look East" policy has been mainly reinvigorated by China's interests in ASEAN's riparian states along the Mekong River, namely, Cambodia, Laos, Myanmar, Thailand, and Vietnam. With the inclusion of Myanmar in ASEAN in 1997, India has come to share a common land border with an ASEAN member state and this has increased India's potential influence in the region.

Introduction: Post-Cold War Globalization

The end of the Cold War, the globalization of national economies, and the Asian financial crisis were some of the key factors that have established an ecologically conducive environment for India to enhance its linkages with the Southeast Asian region. The demise of the Soviet Union, India's main trading partner, and India's economic crisis of 1991 and subsequent economic reforms created a momentum for India to strengthen its trading links with Southeast Asia. Indian Prime Minister Atal Bihari Vajpayee said that "the Cold War moulds have been broken and this has enabled us to strengthen our links without ideological

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barrier".[1] India's engagement with Southeast Asia has spanned two millennia, based on trade, migration, language, culture, and religion.[2] India has also been observing with concern that China's influence in Southeast Asia has grown. China's growing role in Southeast Asia contrasts with India's inability to strengthen its economic relations with the countries of South Asia despite the creation of the South Asia Association for Regional Co-operation (SAARC).[3] China's strategic links with Pakistan also irks India because of China's indirect interference in South Asia.

This article will differ from previous works on India and ASEAN by focusing on India's relations with the later entrants of the regional grouping, namely, Cambodia, Myanmar, Laos, and Vietnam (CMLV). These newer ASEAN states are strategically very important to India because of their proximity not only to India but also to the other Asian giant, China. In this context, the article will also examine India's economic ties with Thailand, which has closer bilateral interests to the CMLV states than the other ASEAN member states. These five ASEAN members are also noted as riparian states of the Mekong and are involved in the framework of the Mekong-Ganga Co-operation (MGC). The MGC ministers in the Vientiane Declaration had identified several areas for co-operation; they include culture, education, tourism, transport, and communications.[4]

India's focus on Thailand and the CMLV states highlights the fact that geographical proximity has a large influence in India's "Look East" policy because the Southeast Asian states, in particular those along the Mekong River, are also strategically important to China. When Myanmar became a member of the Association of Southeast Asian Nations (ASEAN) in 1997, India came to share a 1,500-kilometre contiguous border with ASEAN. In this context, India's engagement with the ASEAN states has assumed a different strategic perspective. At the onset of India's 1991 economic reforms, engagement with ASEAN was to accelerate the expansion and modernization of Indian infrastructure in the form of communications, roads, ports, and power.[5] This meant attracting foreign investments and collaboration with the more advanced ASEAN countries such as Malaysia and Singapore. Though still very important, the engagement policy of India with the ASEAN states has assumed an added strategic dimension in the form of the riparian states along the Mekong River.

From a regional perspective, the "Look East" policy also demonstrated that India has little faith in the development of its own South Asian Association of Regional Co-operation. According to Indian External Affairs Minister Yashwant Sinha, "the development of ASEAN, during the last three decades, is the only successful experiment in

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regionalism".[6] India believes that enhancing the level of its economic partnership with ASEAN is an important part of its strategy to increase its share in world trade which stands at a mere 0.4 per cent at the end of 2001.[7] The ASEAN region encompasses about 500 million people, with a combined total of US$737 billion in income and US$720 billion in external trade. India and the ASEAN states are located in a geographically contiguous market that has 1.5 billion people with 300 million middle-class consumers in India alone.[8]

India's Look East Policy

India's strategy of engagement with Southeast Asia started before the fall of the Berlin Wall in 1989.[9] In the late 1980s, India began to initiate peaceful overtures to ASEAN and had called this process "Look East Destiny".[10] In this regard, Singapore facilitated the elevation of India to full dialogue status by becoming India's Country Co-ordinator,[11] and supported India's elevation to Full Dialogue Partner (Singapore has since relinquished its Indian Country Co-ordinator role to Malaysia). The visit by U.S. President Bill Clinton to India in March 2000, the first by an American President in twenty-two years marked a significant realignment in India's geostrategic and foreign economic relations. After decades of neglect as a result of the Cold War, the thawing of India–U.S. relations has the potential for positive spillovers for India in the Southeast Asian region. Taking advantage of this opportunity, Indian Prime Minister Vajpayee has renewed interest in India's "Look East" policy, and this was manifested when he visited several Southeast Asian countries between 2001 and 2002.

India's renewed interest in its "Look East" policy was reciprocated by the visit of the Secretary-General of ASEAN, Rudolfo Severino, to New Delhi in January 2001.[12] In New Delhi, Severino had discussions with the Indian Commerce Ministry on ways to boost trade and economic co-operation between India and ASEAN. ASEAN is also interested in exploring co-operation with India's information technology sector. In this regard, Severino visited Bangalore (India's information technology [IT] hub) and had meetings with India's software industry representatives. Following Severino's visit to India, the third ASEAN–India Senior Officials Meeting (SOM) was convened. This was a follow-up to the first SOM held in 1998, and the second SOM in 1999.

With the renewed process of engagement with ASEAN, Indian Prime Minister Vajpayee visited Vietnam in July 2000, Malaysia in May 2001, Thailand in July 2001, Singapore in April 2002, and Laos and Cambodia in November 2002. In addition, India's Minister for External Affairs Jaswant Singh visited Myanmar in February 2001, while Indian

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Deputy Prime Minister L. K. Advani visited Singapore in February 2003. In an address to the Institute of Diplomatic and Foreign Relations, entitled "India and ASEAN — Shared Perspectives" in Kuala Lumpur, Malaysia, Prime Minister Vajpayee said, "We are conscious that in the first few decades after our independence, we did not attain the full promise of our relationship...the full scope of our partnership was constrained by divergences in economic ideology, political outlook and security assumptions, which the Cold War imposed on us."[13] Prime Minister Vajpayee, emphasized India's interest in ASEAN by saying that as India was developing its "Look East" policy, ASEAN had moved west by drawing Myanmar into its regional grouping, creating an opportunity for enhanced convergence.[14]

India's renewed interest in its "Look East" policy is related to its desire to accelerate its economic development further through reforms and liberalization. While India was not adversely affected by the Asian financial crisis of 1997–98, it also realized that it emerged relatively unscathed from the crisis because of its insular economy. In contrast, the ASEAN member states received the full brunt of the financial crisis but their economies are recovering, which reflects their resilience and dynamism. Indian Prime Minister Vajpayee noted that the ASEAN countries have begun to develop regional dominance in certain areas of technologies and wishes India and ASEAN to exploit their respective synergies.[15] As a market, ASEAN is attractive for Indian exporters because of its geographical proximity, resulting in shorter delivery schedules and lower freight costs. With a sizeable population of people of Indian origin (PIO) and a shared sense of historical, cultural and religious commonalities, the emerging economic linkages between ASEAN and India will be multifaceted and in-depth. Moreover, the new breed of Indian migrants to Southeast Asia are likely to be software engineers, financial analysts, and management professionals who will increasingly play an influential role in connecting South and Southeast Asia.

The post-Cold War environment from a geostrategic perspective has also drawn the ASEAN member states closer to India. This scenario was made possible because of the Soviet withdrawal from Afghanistan, Vietnam's withdrawal from Cambodia, and the dissolution of the Soviet Union. Since the demise of the Soviet Union, India has perceived that there would be greater willingness on the part of the ASEAN members to judge Indian economic policy based on its merits without linkages to its Cold War doctrines.[16] Although some doubts remain among the ASEAN members about India's strategic intentions, it was felt that ASEAN as a regional organization would look favourably upon Indian intentions of extending an "olive branch" after being encamped on the

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opposite side of the Cold War ideological divide. Moreover, engaging India as a regional power is a wise strategic response by ASEAN as it would curb China's regional ambitions.[17] China's entry into the World Trade Organization (WTO), its ability to attract foreign direct investment (FDI), and its political influence in the region are some of the main motivations for India to engage the Southeast Asian region.

The motivation for ASEAN to welcome India as one of its partners is connected to how ASEAN is increasingly perceived by its main trading partners in the Western developed world. Since the Asian financial crisis and now the threat of terrorism in the region, especially since the bomb blast in Bali, Indonesia, in October 2002, Western investors are generally scrutinizing potential investments in the region more carefully. In addition, in terms of economic strategy, what is more alarming for ASEAN is that the European Commission (EC), in its strategy paper on EU–Asia enhanced partnership, has urged the EU to forge stronger ties with China and India.[18] Apart from this new Asian focus by the EU strategy, existing strains in bilateral relationship between ASEAN and the EU, which includes human rights, transparency, and good governance will add to friction in ties between the two regions. For example, the enlargement of ASEAN to include Myanmar caused some consternation with certain European states. Given these developments, ASEAN is also keen to have India as another major Asian power to counter the growing influence of China and the decline of superpower interest in the region.

The ASEAN–India economic partnership is as much influenced by respective national interests to promote greater trade and business linkages as their concern over the growing influence of China in the region. Early signs of China's huge impact on ASEAN can be seen by its ability to draw away investments from the region. At the end of November 2002, overseas investments in China reached US$48 billion, an increase of 14.6 per cent over the same period in 2000.[19] Concurrently, the inflow to ASEAN members, such as Singapore, Malaysia, Thailand, Indonesia, and the Philippines fell from US$27 billion in 1997 to US$11.4 billion in 2001. China has a much larger domestic market with lower labour costs and is also seen as a relatively safer option compared with some Southeast Asian states. To counter the growing economic might of China, policy-makers in ASEAN believe that it is imperative that ASEAN become China's partner in economic development.[20] China's continuing strategic engagement with Pakistan from the Indian point of view also needs to be countered to prevent India from being "locked" into the South Asian region. Through its engagement with ASEAN, India is able to counter China's influence in the ASEAN region and break out from the South Asian region.

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Strategic Trade

From a strategic perspective, enhancing trade and economic linkages with Southeast Asia after the demise of superpower rivalry in the region is of paramount importance if India is to curtail the influence of its main rival and neighbour, China, in the region. Without cultivating the ASEAN member states and extending its influence into the Southeast Asian region, India risks being marginalized and outflanked by the strategic partnership between China and Pakistan. While the motivation by India to foster closer links with ASEAN may be motivated by strategic considerations, India's trading and economic links with the region has been ongoing throughout centuries. According to Prime Minister Vajpayee, "ASEAN has always been very close to us in terms of history, geography and cultural association. The Ganga-Mekong Cooperation Programme, India's dialogue partnership with ASEAN and our ARF (ASEAN Regional Forum) partnership all underlie our linkages". Prime Minister Vajpayee added, "We would like to see these linkages flourish in the future in the interest of our collective security."[21]

One of the clearest indications that India intends to overcome hurdles in fostering closer ties with ASEAN can be seen from its handling of the nuclear disarmament issue. Although India refused to sign the Comprehensive Test Ban Treaty (CTBT), Prime Minister Vajpayee said that India as a nuclear weapons state was willing to respect the nuclear-free status of Southeast Asia by converting this recognition into a *de jure* commitment.[22] This stand on India's part is significant because, given the nuclear capabilities of China and now Pakistan, India is willing to compromise on its overall strategic considerations for better relations with its ASEAN neighbours. Brajesh Mishra, Principal Secretary to Prime Minister Vajpayee, commented that, "ASEAN is a very important entity to us. Trade-wise, economic cooperation-wise. Don't forget that the sea lanes here are as important to us as they are to any other country. Our trade through the sea-lanes to Japan etc...is an important factor".[23]

Economic Collaboration

India's economic involvement with the ASEAN member states ranges across several issues and levels of industrial development.

The newer members of ASEAN, such as Vietnam, Laos, Myanmar, and Cambodia, have economies that are more dependent on primary industries than the more developed countries such as Malaysia, Singapore, and Thailand. Table 1 indicates the export trends of a selected group of ASEAN countries with India. The exports from ASEAN

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TABLE 1
ASEAN Exports to India
(In US$ thousands)

Countries	*Years*								
	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Brunei Darussalam	–	12.0	23.6	25.4	0.0	0.0	0.0	225.1	52,243.0
Cambodia	–	–	–	–	–	–	–	134.6	50.1
Indonesia	99,926.1	269,191.3	381,023.6	422,753.6	703,491.4	722,894.3	923,938.5	1,151,282.3	1,053,939
Malaysia	209,670.1	504,856.4	760,167.3	1,073,705.9	1,049,552.7	1,642,516.3	1,860,377.8	1,703,016.8	1,482,583.5
Myanmar	–	–	–	–	–	–	150,904.5	247,846.9	349,659.2
Philippines	225,618.6	12,988.7	20,228.4	36,562.2	33,779.0	37,510.4	41,539.8	63,998.5	71,145.7
Singapore	948,738.1	1,202,483.5	1,659,609.1	1,954,417.2	2,297,082.8	2,433,700.3	2,503,431.1	2,786,528.5	2,719,634.2
Thailand	–	–	–	235,340.3	389,288.7	381,240.5	247,882.8	602,569.8	481,719.0
TOTAL	1,483,952	1,989,531	2,821,052	3,722,804	4,473,194	5,217,861	5,728,074	6,555,602	6,210,974

SOURCE: ASEAN website.

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to India show an overall increasing trend. The largest increase in terms of exports to India among the ASEAN members are with Indonesia, Malaysia, and Singapore. Brunei Darussalam has relatively less exports to India, but Cambodia and Myanmar have the weakest figures as newcomers to ASEAN. Philippine exports to India had declined drastically in the mid-1990s but have started to increase. Thailand's exports to India appear to have fluctuated the most with a large decrease in 2001. In this regard, India and Thailand have examined several bilateral and regional initiatives to reduce this wide fluctuation in their bilateral trade.

Table 2 indicates that the ASEAN countries do not import as much as it exports to India. While ASEAN imports from India has generally increased, the figures indicate that, proportionally, ASEAN exports to India more than doubled. Malaysia and Singapore are the largest importers from India, while Thailand is third. The secretary-general of the Federation of Indian Chambers of Commerce and Industry (FICCI),[24] Dr Amit Mitra, predicted that trade between India and ASEAN is likely to rise from approximately US$10 billion in 2001 to US$20 billion by 2005. Despite the 1997–98 Asian financial crisis, trade between India and ASEAN grew by 30 per cent from US$7.6 billion in 1999 to US$10 billion in 2001.[25] According to Mitra, Southeast Asia accounted for 12 per cent of India's total foreign trade and India would like to raise this figure to 25 per cent in the shortest possible time.[26]

Though bright, the outlook for trade between ASEAN and India pales by comparison with ASEAN and China trade figures. In 2001, total trade between ASEAN and China stood at more than US$55 billion, an increase from US$9 billion in 1993. India's inability to capitalize on its geographical proximity to ASEAN and its historical and socio-cultural linkages with the Southeast Asian region was largely due to its slow pace of reforms to liberalize the Indian economy. The perception of the ASEAN countries is that India has not been serious about implementing its reforms and the process of governance in India appears complicated, unlike the situation in China. The Indian Government is anxious to change this perception and has pledged to cut its import tariffs from 30 to 20 per cent.[27] Prime Minister Vajpayee has also tried to reassure investors and potential business partners from ASEAN that India wishes to be investor friendly. For example, India will be resorting to using e-governance to tackle laborious paperwork and the bureaucracy.[28] Prime Minister Vajpayee has also pointed out that India or Indian-origin entrepreneurs owns the world's largest palm oil refinery in Malaysia, the largest carbon-black manufacturing units in Thailand, and a large number of textile factories in Indonesia. This indicates that the investment flows between India and ASEAN have been in both directions.[29]

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TABLE 2
ASEAN Import from India
(In US$ thousands)

Countries	*Import*								
	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Brunei Darussalam	–	3,987.9	7,575.7	16,012.0	13,777.4	14,023.1	6,282.0	6,445.3	3,967.7
Cambodia	–	–	–	–	–	–	–	9,194.3	2,811.4
Indonesia	335,399.7	350,998.8	478,847.3	655,799.9	697,412.3	292,930.2	275,458.1	524,827.4	486,258.5
Malaysia	316,080.1	308,465.7	429,417.1	666,144.8	662,554.0	428,650.9	474,784.6	735,220.6	1,070,714
Myanmar	–	–	–	–	–	–	62,474.9	70,218.6	79,360.5
Philippines	109,670.9	130,465.5	106,635.1	218,616.2	228,172.3	141,937.2	135,620.5	166,393.8	237,481.1
Singapore	668,492.1	753,088.6	815,937.5	952,468.5	1,075,852.2	604,900.9	738,893.4	1,077,460.7	1,117,967.2
Thailand	–	–	–	334,778.1	1,717,685.1	267,966.3	451,366.5	624,076.6	673,492.2
TOTAL	1,429,642	1,547,006	1,838,412	2,843,819	4,395,453	1,750,408	2,144,880	3,213,837	3,672,053

SOURCE: ASEAN website.

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With China's entry to the WTO, ASEAN member-state officials, such as the Indonesian State Minister of Foreign Investment, Laksamana Sukardi, believes that both China and India are serious competitors of ASEAN in terms of foreign investments.[30] Sukardi opined that both China and India have large cheap pools of labour and huge potential markets. Both countries have also acquired significant technological capabilities. In particular, China is now able to produce sophisticated hardware and components, including semiconductors as well as research and development (R & D) services.[31] It is also pertinent to note that as China expands its manufacturing capacity, it has started to increase its overseas investments in natural resource-rich countries. For example, Chinese investments in those ASEAN member-states that are endowed with natural resources increased from around US$54 million in 1998 to US$108 million in 2000.[32] Interdependence in trade and investments, and not tariffs, seems to be the pragmatic approach to dealing with potential Chinese and Indian dominance in regional trade and investments.

Increasing interdependence between China, India, and ASEAN in terms of trade and investments in a market of 2.5 billion consumers, or half of the world's population, is not to be taken lightly. While China is concerned about the influence that it is having on the region by attracting foreign investments away from ASEAN, India is also concerned about the ability of the ASEAN region to recover from internal and external economic shocks. For example, when the ASEAN countries were hit by the 1997–98 financial crisis, their imports from India declined substantially from US$4.4 billion in 1997 to US$1.7 billion in 1998 (Table 2). However, ASEAN exports to India during the same period increased US$4.5 billion to US$5.2 billion (Table 1). During the crisis, India pledged solidarity with ASEAN to boost trade and investment flows to support the grouping's efforts to overcome the crisis.[33] During the second India–ASEAN Joint Co-operation Committee meeting in Singapore in April 1998, India offered to allow the use of its EXIM Bank credit for two-way investment flows with ASEAN. Noting the sharp increase in ASEAN imports by India, Indian officials commented that the Indian Government, despite pressures, had resisted a competitive devaluation of the rupee.[34] In 1996, before the financial crisis, ASEAN and India had become major investors in each other's economies. Two-thirds of Indian investments were targetted at ASEAN economies, while ASEAN as a group had invested US$1.8 billion in India, making ASEAN a major investor in India.[35]

The economic co-operation between India and ASEAN extends beyond trade and investments and into the area of technological co-operation and human resource development. India has built an

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impressive standing as an information technology and, in particular, software development centre. In this context, in 2000 India had organized a six-week training programme for ninety-four ASEAN candidates in advanced software techniques at the National Institute of Information Technology (NIIT).[36] India has suggested that, given the positive feedback that it has received from the IT programme, it might be useful to allocate half of the one hundred scholarships that India has offered to ASEAN on a yearly basis to be used for IT purposes. In particular, India is keen to promote the use of IT among Cambodia, Laos, Myanmar, and Vietnam for the purposes of e-governance and for use in the rural areas.[37] While the CLMV states are not factored into the trade statistics on the ASEAN web because of their nascent bilateral trade with India, the latter is keen to promote ties with these states because of their proximity and relationship with China.

Maritime Security

Brajesh Mishra, Principal Secretary to Prime Minister Vajpayee, has commented that if India wants to import crude oil from Vietnam, India would want security of the sea-lanes in ASEAN for the crude oil to reach India. According to Mishra, this is part of India's security strategy. It was reported that 469 piracy cases occurred in the waters of Southeast Asia in 2000, an increase of 57 per cent from the previous year, and nearly 40 per cent of those attacks occurred in the seas around Indonesia and the Malacca Straits.[38] Indian Defence Minister George Fernandes has mentioned that the Indian Navy has an interest in the ocean space extending from the North of the Arabian Sea to the South China Sea.[39] Apart from geostrategic considerations, the safety of the sea-lanes of the one of the world's busiest waterways has clear commercial implications. The sea-lanes in the region, because of their commercial value, have increasingly been subject to acts of piracy.

Table 3 illustrates the number of piracy attacks worldwide from 1995 to 2000, compared with the cases occurring in Southeast Asia. In the first six months of 2001, 165 actual and attempted attacks and incidents of piracy were recorded in the world. Of this, 101 cases, or 61 per cent, of acts of piracy were recorded in the waters of Indonesia, Malacca Straits, Malaysia, Bangladesh, and India.[40] According to the International Maritime Bureau (IMB) based in Malaysia, in 2001, besides Southeast Asia, especially the Indonesian waters and the Straits of Malacca, India, Bangladesh and the southern part of the Red Sea were also named as hotspots for sea piracy.[41]

Table 4 illustrates the location of actual piracy attacks in various Southeast Asian countries' maritime borders in 2000. While Vietnam is

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TABLE 3
Piracy Attacks in Southeast Asia vs. World Total (1995–2000)

Year	*World Total*	*Southeast Asia*	*SEA as a % of World Total*
2000	469	242	51.6
1999	300	161	53.7
1998	202	89	44.1
1997	247	92	37.2
1996	228	124	54.4
1995	188	71	37.8

SOURCE: Federation of ASEAN ship owner's Association.

TABLE 4
Location of Pirate Attacks in Southeast Asian Maritime Boundaries in 2000

Countries	*Berthed*	*Anchored*	*Steaming*	*Not Stated*	*Total*
Indonesia	22	55	10	1	88
Malaysia	4	11	2		17
Malacca Straits	–	–	37	–	37
Philippines	–	2	1	–	3
Singapore Strait	–	2	1	–	3
Thailand	–	6	–	–	6
Total	26	76	51	–	154

SOURCE: Federation of ASEAN Ship Owner's Association.

not featured in the table, its waters around the area of Vung Tau is known to be especially notorious for pirate attacks.[42] ASEAN members, such as Indonesia, Malaysia and Singapore, are able to counter piracy attacks with modern equipment, weaponry, and trained personnel but the CMLV states such as Vietnam suffer from a scarcity of resources in this area. The interest that India has shown in the sea-lanes of Southeast Asia and its collaboration with its Vietnamese counterparts to fight piracy in the waters of the Indian Ocean to the South China Sea, should be seen in a positive light. While the piracy attacks in Vietnamese waters were mostly targetted at defenceless fisherman, there is growing concern that the attacks are widening to include oil and gas tankers, and cargo vessels.[43]

Apart from piracy, the expanding threat of terrorism has heightened the concern among the international maritime community for the safety

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of cargo vessels, and oil and gas tankers. In early October 2002, Yemeni officials reported that the explosion which crippled the French tanker *Limburg* in the Gulf of Aden was the work of terrorists.[44] While shipping and oil executives reported that the tankers had taken the necessary precautions, the threat from hazardous areas such as the Persian Gulf and Southeast Asia remains.[45] Pirates may find it difficult to attack tankers with crude weapons but they represent a big and easy target for terrorists with more sophisticated weaponry. While attacks and hijackings on tankers continue in Southeast Asia, the IMB Reporting Centre in Malaysia has also reported the success in recovering some of the hijacked tankers. For example, on 28 June 2001, the Indonesian navy recovered the hijacked tanker *MT Selayang*, which was reportedly carrying 3,500 tons of gas-oil at the time of its hijacking on 19 June 2001. In this context, the co-operation of regional navies, such as that between India and Vietnam, should be encouraged. If successful, this type of co-operation with the Indian navy could be enlarged to merge with ongoing naval operations between ASEAN members in the more dangerous waters off Indonesia's coast and the Straits of Malacca.

India's security co-operation with ASEAN member-states such as Vietnam also extends beyond co-operation on the high seas. India has signed a bilateral agreement with Vietnam to provide the latter with weaponry and military training. Growing defence links between India and Vietnam have witnessed an agreement signed by both countries for Vietnam to train Indian troops in jungle warfare and counter-insurgency operations.[46] This agreement was reached during the visit of former Indian External Affairs Minister George Fernandes to Vietnam in March 2000. In return, India is to repair and overhaul MIG aircrafts belonging to the Vietnamese air force, train its pilots, and assist Vietnam to establish its defence industry to manufacture weapons. In addition, Vietnamese naval officers are also to receive training at the National Defence College in India and at the army's Pachmarhi language training facility.[47] India also stands ready to supply Vietnam with Petia-class boats for its navy.

The economic and scientific collaboration between India and Vietnam reflects a multifaceted approach to the bilateral relationship between both countries. India has also offered Vietnam assistance to develop its physical infrastructure. According to Prime Minister Vajpayee, India would be ready to assist with requisite capital to develop transportation, telecommunications, railways, water supply, and power generation in Vietnam.[48] Prime Minister Vajpayee added that Vietnam is a "critical element" in India's plans to forge stronger ties with ASEAN, and pivotal for India's "Look East" policy. During Vajpayee's official visit to Vietnam in January 2001, several agreements

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were signed between Indian and Vietnamese companies. It was also announced that India would be establishing a US$10 million pharmaceutical plant in Vietnam. Another major business venture involved the Indian company, ONGC Videsh, and Petrovietnam in gas and oil production. ONGC Videsh would invest US$238 million (the largest Indian investment abroad to date) in the joint venture.

Vietnam's interest in developing its energy resources with assistance from foreign investors has materialized in a commercial agreement signed between BP Amoco and Petrovietnam on the transportation of gas from its offshore fields in the Nam Con Son basin off southern Vietnam.[49] Vietnam has included India's ONGC Videsh in the deal, and the other signatories include Norway's Statoil, who are owners of the US$580 million pipeline as well as the gas fields. In this deal worth a reported US$1.1 billion, ONGC Videsh's stake is 45 per cent while Petrovietnam has a 15 per cent stake. The other partners are BP, with a 26.67 per cent stake, and Statoil, with a 13.33 per cent stake.

Vietnam is also keen to develop its nuclear research industry to support its nuclear energy sector. Vietnam envisages that it would have to depend on nuclear power as its main energy source by 2050 because its fossil fuel resources would be depleted by that time. Vietnam plans to have its first nuclear reactor supplying electricity by 2017. India has agreed to supply Vietnam with laboratory equipment for its nuclear research institute in Dalat (southern Vietnam) and to train up to thirty Vietnamese nuclear scientists at Indian facilities dealing with various aspects of nuclear energy.[50] Prime Minister Vajpayee said that, "science and technology, including frontier sciences, are the backbone of a modernizing society and India is pleased to assist Vietnam in this direction". A Memorandum of Understanding (MoU) was signed between India's Department of Atomic Energy and the Vietnamese Science Ministry.

Vietnamese Prime Minister Phan Van Khai said, "Over the past years, India has recorded important achievements in the course of reform and economic development and thus enhanced people's living standards."[51] Echoing the need to improve living standards, Vajpayee announced that apart from a US$5 million credit offered to Vietnam in December 1999 to establish two centres for software and human resource development, India would add a further US$12–15 million grant for a software and training centre.[52] Vietnam, a leading fisheries exporter in Southeast Asia, is also interested in co-operating with China and India to establish an ASEAN Plus Two alliance in a bid to boost fisheries exports. Thailand's fisheries exporters and the Vietnam Association of Seafood Exporters and Processors explained that ASEAN, India, and

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China combined, accounted for 85 per cent of fisheries exports in the world. The potential alliance will provide added weight in negotiating with importers over such concerns as technical trade barriers and food safety standards.[53]

India–Myanmar Relations

India's linkages with Myanmar reflect a similar geostrategic outlook to its linkages with Vietnam. When Myanmar was admitted to the ASEAN Regional Forum (ARF) in July 1996, and subsequently as a full ASEAN member in July 1997, India came to share a common land border with an ASEAN member state.[54] Indian External Affairs Minister Jaswant Singh, during a visit to Myanmar in February 2001, said that India needed an eastward access and that India could not have this if it stood apart from Myanmar.[55] Jaswant Singh was the first important Indian Minister to visit Yangon, Myanmar, since 1987 when the late Prime Minister Rajiv Gandhi visited that country. India's emphasis on developing its eastward trade access to Myanmar illustrates the Indian Government's resolve to mend and enhance historic ties with Myanmar. The Indian Government is aware of the potential for developing trade ties with Myanmar, an economy that only opened its market in the late 1990s.

India's plan to draw on its historic links and develop its common land border with Myanmar to alleviate the poverty and underdevelopment in the region is a subtle move to enhance its linkages with Myanmar. Jaswant Singh said that, "historically, these areas have suffered on account of inaccessibility and inadequate infrastructure. We believe that the development of these border regions would be faster and more effective if our two countries joined hands in this endeavour."[56] Included in Jaswant Singh's delegation were ministerial representatives from the states of Assam, Manipur, Mizoram, Nagaland, and Arunachal Pradesh in India. These last four Indian states share a common land border with Myanmar. Jaswant Singh said that, "When we inaugurated the Tamu-Kalemyo-Kalewa road (along the Myanmar northwest border with India) ..., we wanted to convey the message that land joins us and we cannot be separate."[57] Jaswant Singh also pointed out that by providing a link from the Indian border to central Myanmar, the road could promote exchanges in trade, travel, and tourism, and only then would the full potential of the border trading point at Tamu-Moreh be realized.[58] More importantly for India's aspirations with ASEAN, the Tamu-Kalemyo-Kalewa road will eventually form a section of the Asian highway from Singapore to Istanbul.

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As India's External Affairs Minister, Jaswant Singh has effectively stepped up economic and trade interests with his visit to Myanmar in February 2001. As a signal to foster closer trading and economic links, Myanmar and India have agreed to open four border check-points, and Myanmar would also consider the re-opening of the Indian consulate in Mandalay.[59] Jaswant Singh added that it was also agreed between both sides to develop banking services, and immigration and customs facilities at the border trade check-points. The two sides also signed a treaty to combat cross-border drug trafficking and separatist insurgencies. As a gesture of India's commitment to cross-border problems, Jaswant Singh, on behalf of the Indian Government, handed over vehicles and construction equipment to Myanmar Ministers Lieutenant General Tin Oo, First Secretary Khin Nyunt, and Foreign Minister Win Aung of the State Peace and Development Council (SPDC).

Aware of the lack of infrastructure facilities in Myanmar, apart from collaborating on constructing land links, in the short-term, India will also co-operate with Myanmar to construct a bridge that would link the Indian province of Mizoram with the bordering region of Myanmar.[60] Myanmar Foreign Minister U Wing Aung considers this a historic development in Indo–Myanmar relations.[61] In the long-term, India is also willing to co-operate with Myanmar in the construction of the Yeywa Hydroelectric Project near Mandalay.[62] India would be dispatching a team from its Ministry of Power to Myanmar to discuss the proposed collaboration and conduct a preliminary on-site survey. India is also co-operating with Myanmar authorities to exploit hydropower projects along the India–Myanmar border.

India's efforts at repairing ties with Myanmar were greatly influenced by the gains that China has made to develop its own ties with Myanmar. China has been assisting Myanmar to upgrade the latter's naval facilities. This includes at least four listening posts along the Bay of Bengal and the Andaman Sea: Man-Aung, an island off the coast of Western Arakan, Hainggyi Island in the Irrawady Delta, St. Mathew Island, north of the entrance to the Malacca Straits, and Coco Island north of India's own Andaman Islands.[63] To counter the Chinese threat, India has started to establish new military bases in the Andaman and Nicobar Islands. According to senior Indian military officials, the bases would be used to monitor military and terrorist activities against India.[64] From a strategic point of view, China is far ahead of India in developing its ties with Myanmar. While it may not be feasible for India to engage China in a strategic competition over Myanmar, India has approached the potential threat in a pragmatic fashion through its efforts to have a cordial relationship with Myanmar at all levels.[65]

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India's Relations with Laos, and Cambodia

Indian Prime Minister Vajpayee visited Cambodia and Laos in November 2002 before the start of the ASEAN Summit. Besides discussing security concerns in view of the global threat of terrorism, India also held substantive economic talks with Laos and Cambodia. Prime Minister Vajpayee's visit to Cambodia was the first for an Indian Premier since late Prime Minister Jawaharlal Nehru visited Cambodia in 1954.[66] Three agreements were signed by both countries covering the conservation and restoration of the Ta Prohm temple near Angkor Wat, an air services pact, and visa exemption for diplomatic and official passport holders. The Confederation of Indian Industries (CII) and the FICCI as part of the Indian delegation also signed separate Memoranda of Understanding with the Phnom Penh Chamber of Commerce.[67] Under the MoUs, the CII has agreed to assist the Phnom Pehn Chamber to run a chamber of commerce, and under the Mekong-Ganga Co-operation (MGC) programme, India will provide US$1 million in seed money to establish a traditional textiles museum in Siem Reap.

Prime Minister Vajpayee's visit to Laos also centred on textiles as India made moves to promote Indian textiles and paintings to garment exporting Laos. Vajpayee inaugurated the first exhibition of Indian Madhubani paintings from the Indian state of Bihar in Laos.[68] The exhibition was organized by the Indian Council of Cultural Relations (ICCR) and Indian Foreign Minister Yashwant Sinha said that the paintings were done on paper in their original form. Apart from textiles, India also offered to assist Laos in human resource development by training its air force pilots. Similar to India, Laos has a fleet of Russian MIG-21 planes, and India also has the capability to provide technical assistance in terms of maintenance and upgrading of these Russian-made MIG aircrafts.[69]

India–Thailand Relations

India's bilateral relations with Thailand has been transformed from being ideological opposites during the Cold War to convergence, characterized by Thailand's "Look West" policy that coincides with India's "Look East" policy. The Thai Government in 1996 added a new element in its foreign policy, called a "Look West" policy, that consciously hoped to accord priority to the development of relations with countries on the Indian sub-continent, in particular India.[70] This has been most readily seen in the exchanges of high-level official visits between the two countries. For example, India's Finance Minister Yashwant Sinha made a visit to Thailand in May 2000 to participate in an Asian Development Bank (ADB) conference in the province of Chiangmai.[71]

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When former Thai Foreign Minister Surin Pitsuwan visited New Delhi in July 2000, he discussed five economic sectors with Indian officials that had good potential for future growth.[72] These are the computer industry, IT and e-commerce, agriculture, construction, and tourism. Minister Pitsuwan also commented that in the computer and software industry, India had highly-skilled personnel in software development, while Thailand excelled in hardware production. On the part of the private sector, the Confederation of Indian Industries made efforts to strengthen economic ties with its Thai business counterparts. Statistics from the CII indicate that trade between India and Thailand has grown from US$406 million in 1992 to US$893 million in 1997.[73] India's exports to Thailand were US$598 million in 1997, while India's imports from Thailand amounted to US$295 million.

Table 5 illustrates the bilateral trade figures between India and Thailand. The share of Thailand's trade with India in terms of Thailand's total global trade is 0.7 per cent. While imports from India account for 0.9 per cent of Thailand's overall exports, Thailand's exports to India make up only 0.5 per cent of its global exports, but Thailand was ranked 13th as India's largest export markets in 1995–96. Trade between India and Thailand declined after the Asian currency crisis in 1997. Trade between the two countries stood at US$375 million in 2001, representing a loss of 14.1 per cent over the same period in 2000.[74]

To increase its trade with India, Thailand has launched a series of trade shows in India to be held in leading cities, including Bangalore. The Thai and Indian governments have set a target of US$2 billion of

TABLE 5
India–Thailand Bilateral Trade, 1990–97
(In US$ millions)

Year	*Exports from India to Thailand*	*Exports from Thailand to India*	*Total Bilateral Trade*	*% of Growth*	*Trade Surplus*
1990	565	65	621	+ 47%	491
1991	957	65	1022	+ 64%	892
1992	340	66	406	– 60%	274
1993	529	75	604	+ 49%	454
1994	531	194	725	+ 2%	337
1995	624	289	913	+ 26%	335
1996	649	246	895	– 2%	403
1997	598	295	893	– 0.2%	303

SOURCE: Brief India–Thailand Economic Figures, Indian Embassy in Bangkok, Thailand.

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trade between them, to be achieved by 2005. The trade exhibitions in Bangalore, called "Thailand Exhibition — 2001", was a three-day event that saw ninety-six companies participating to market nineteen product categories. This effort would help to facilitate trade between India and Thailand by increasing the awareness and opportunities for Indian and Thai businessmen to network with each other.

Thai Ambassador to India Bandhit Sotipalait said that to facilitate bilateral trade, both the Indian and Thai Prime Ministers have agreed to study the possibility of establishing a bilateral free trade area. While acknowledging that easing the transport of goods and people across borders will facilitate bilateral trade, both countries are also aware that a bilateral free trade agreement could stimulate their trade dynamics. This is because both countries could collaborate across a wide range of areas, including information technology, education, tourism, textiles, clothing, automobiles, gems, and jewellery.[75] Prime Minister Vajpayee, on his visit to Thailand in November 2002, had also agreed with Thai Prime Minister Thaksin to expand air routes between the two countries to facilitate trade and tourism. As of the end of 2002, Thai Airways has been operating one flight a week from Bangkok to Kolkata, Delhi, and Mumbai, while Air India operates ten flights a week to Bangkok.[76]

A further enhancement of bilateral linkages includes the likely establishment of a bilateral free trade area between India and Thailand because both countries have signed a number of agreements to strengthen economic co-operation. In February 2002, Thai Prime Minister Thaksin and Indian Prime Minister Vajpayee signed two agreements in Delhi. One agreement involved co-operation in space exploration while the other involved scientific, technological, and environmental co-operation and the transfer of technology.[77] India and Thailand have also agreed to establish a study group to examine the possibility of tax reduction and exemption on certain products.

Free Trade Area

The proposed India–Thailand free trade area to a large extent echoes the sentiments of India and ASEAN to work towards a free trade pact. Preparations for a proposed free trade area between India and ASEAN began with the ASEAN Economic Ministers (AEM) meeting in September 2002 when Brunei hosted the first meeting between trade ministers from India and ASEAN.[78] The proposed free trade area is strongly supported by the FICCI, which envisages a wide range of investment and collaboration opportunities for India and ASEAN. The economic ministers at the AEM decided to establish an ASEAN–India Economic Linkages Task Force comprising senior officials and business leaders

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from both sides. The Task Force was mandated to pursue the recommendations made by a joint study on the expansion of ASEAN–India economic ties which had proposed forming an India–AFTA Regional Trade and Investment Area.[79] The Task Force will submit its recommendations, including a draft framework agreement to enhance economic co-operation and trade, at the next AEM meeting in 2003.

At the first India–ASEAN Business Summit in Delhi in October 2002, the FICCI Secretary-General Dr Amit Mitra said that strong India–ASEAN relations could be realized because of the geographical proximity, cultural affinity, and economic complementarity that have already existed for many years.[80] During the first India–ASEAN Summit in November 2002 in Phnom Penh, India offered to start free trade talks and to have a working free trade agreement (FTA) by 2012. The Indian offer came a day after ASEAN and China signed an agreement to have an FTA by 2010, and an agreement with Japan to have closer economic relations.[81] Trade analysts believe that the potential for greater trade expansion between India and ASEAN is great, given the bilateral trade flows of US$10 billion at the end of 2002. The FTA will be an ideal channel for India to trade with Northeast Asia while for ASEAN it is a useful counterweight to the might of the Northeast Asian economies. Prime Minister Vajpayee is keen that the Indo–ASEAN Task Force should explore the possibility of the FTA and submit its report at the next ASEAN Summit in Bali in October 2003.[82] ASEAN and Indian ministers at the end of the Summit agreed to consolidate and enhance their close economic relations by promoting trade and investment, facilitating reciprocal market access, and improving the flow of technology transfer and access to trade and investment-related information.

The result of the ASEAN–India Summit is that such summits will be held on an annual basis, with the next proposed to be held in Bali, Indonesia, but the Indians have predicted that New Delhi will still remain outside the ASEAN-plus caucus. This caucus keeps ASEAN actively engaged with the trilateral states of Northeast Asia (China, Japan, and South Korea).[83] While Indian External Affairs Minister Yashwant Sinha dismissed suggestions that India was concerned over China's influence in Southeast Asia, New Delhi did try to match China and Japan with the move towards creating an FTA.[84] The strategic dimension of India's move towards proposing an FTA could not be more clear when Yashwant Sinha said, "The economic linkages that exist today are inadequate and do not reflect the strength of India and ASEAN..., this is a region which is in our neighbourhood and we are interested in building linkages with our region".[85] In a similar move to that of Beijing, New Delhi is also willing to extend special concessions

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to ASEAN's newest and most economically fragile members. These concessions could come in the form of an "early harvest" that would see quick reductions in tariffs and selected goods.[86] India had pledged to decrease its tariffs on imports from 30 to 20 per cent by 2005. According to international consulting firm McKinsey & Co, India has the potential to increase its bilateral trade with ASEAN at an annual rate of 15–18 per cent.[87]

Conclusion

India's initiatives aimed at strengthening its relations with Southeast Asian countries need to be organized on a long-term and sustained basis. Economically, Myanmar and Vietnam are emerging to embrace the principles of free trade after decades of insular trade practices. India, because of its historical and cultural links to the region, is ideally placed to assume the role of an economic and strategic partner to the emerging ASEAN member economies, such as Myanmar and Vietnam. With its experience and capabilities in science and technology, India is also able to advise and guide these emerging economies. The engagement of India in this region for economic and strategic reasons is more than merely to counteract the influence of China in this region. India's presence and interest in the Southeast Asian region provides a balanced profile of engagement with the region, with the major Asian powers having a significant economic stake in its well-being. India's increased involvement in the region would further spur the momentum of economic development in the region and provide greater economic and strategic security. India, with its relatively more developed infrastructure and expertise, provides a "role model" for countries such as Vietnam and Myanmar. India's decision to engage countries such as Myanmar, with whom it shares a common land border, should be seen in a positive sense, as its intention to co-operate with regional states to ensure the safety of commercial shipping in the region.

Whether India manages to dilute some of China's influence in Southeast Asia remains to be seen but China's efforts to enhance ties with the region is greatly assisted by its relations with Japan and South Korea. These three East Asian nations are proceeding to form a trilateral forum to explore the possiblity of an ASEAN Plus Three free trade economic bloc.[88] While relations between the three East Asian nations are not exactly cordial, given their history and lingering suspicions of each other's motives, it is far better than India's relations with Pakistan, and perhaps Bangladesh. In this context, India's alternative regional economic integration through BIMSTEC to enhance ties between South and Southeast Asia is at best a distant possibility. In the near future,

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India's efforts to enhance ties with ASEAN member states, and in particular the Mekong riparian states, seem to be through strengthening economic co-operation.

Arguably, ASEAN may view India as a potential counterweight to China's influence in the region, or simply widening its options, but this allows India a role in the region. For India, this is real progress from being "bottled up" with purely strategic preoccupations in South Asia. India's economic engagement in Southeast Asia has both geostrategic and trade implications. For example, the bilateral co-operation between India's infrastructure sector in road, bridge and railway development among the CMLV states has strategic significance, but also earns India kudos from fellow Asian developing countries. Considering India's own development experience and ideological past, perhaps India's engagement with the CMLV states could be forged more easily across a wide range of economic sectors compared with the more advanced ASEAN states. While India's economic linkages with Thailand are different from the CMLV states, Thailand's proximity and ties with the CMLV also have strategic value for India. In the final analysis, India's engagement with the region extends its own options and increases the complexity of any geostrategic calculations for potential aggressors.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

Reconstruction of Diplomatic Norms in Southeast Asia: The Case for Strict Adherence to the "ASEAN Way"

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This article discusses the development of the "ASEAN Way". It argues that the basis of the "ASEAN Way" is constituted by global norms, such as the principle of non-interference. Yet the Southeast Asian countries have incrementally reconstructed these ideational elements in the Asian context, thereby developing the "ASEAN Way", through a process of interaction over decades. This process has been affected by the particular political factors in Southeast Asia: the ASEAN countries' particular concerns over state sovereignty, and their policy priorities in maintaining their domestic stability. The argument described above leads to the conclusion that the recent suggestions for a flexible interpretation of the "ASEAN Way" are premature. This is because the political factors which affected the development of the "ASEAN Way" have not changed much.

Introduction

Today, the "ASEAN Way" is being challenged. In Southeast Asia, issues over the interpretation of the elements of the "ASEAN Way" have been debated. The "ASEAN Way" refers to a set of diplomatic norms shared by the members of the Association of Southeast Asian Nations (ASEAN).[1] It encourages the Southeast Asian countries to seek an informal and incremental approach to co-operation through lengthy consultation and dialogue. Its elements include the principles of non-interference in the internal affairs of other states, the non-use of force, and so on. Some scholars and analysts have been calling for a modified

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interpretation of these principles. Jusuf Wanandi notes that the principle of non-intervention is "*passé*".[2] Simon Tay and Jesus Estanislao argue that "exceptions" must be found with regard to the principles of the "ASEAN Way".[3]

Those who suggest that the non-interference principle should be interpreted in a more flexible way may have been inspired by the Thai proposal for "flexible engagement". In July 1998, Bangkok held that issues affecting each other might be brought up and discussed by the ASEAN members, without it being perceived as interference.[4] Although the Thai proposal was supported by the Philippines, many other ASEAN members disagreed with Bangkok. Yet, today, the debate over the interpretation of the principles of the "ASEAN Way" has not ceased. Many scholars, together with some policy-makers, are calling for a more flexible interpretation of the principle of non-interference, while many other policy-makers are cautious of such an idea, and prefer to retain the strict interpretation of this principle. The debate has been confused, and the participants have not been able to agree on an appropriate style of regional diplomacy.

It can be said that one of the main reasons behind this confusion is the lack of sufficient knowledge of the development of the "ASEAN Way". An appropriate style of interaction between the Southeast Asian countries can be considered only when the development of the regional diplomatic norms is thoroughly understood. Therefore, this article explores the development of the "ASEAN Way". An understanding of its development makes it possible to discuss the relevance of the "ASEAN Way" in the region today.

The main theme of this study is the reconstruction of global norms in a regional context, in particular, in the Southeast Asian context. In short, it holds that the basis of the "ASEAN Way" is constituted by the norms at the global level, whose elements are stipulated in the United Nations (UN) Charter, such as the principles of non-interference and the non-use of force. Yet the Southeast Asian countries have incrementally reconstructed these ideational elements in the Asian context, thereby developing the "ASEAN Way", through a process of interaction over the decades since the 1960s. This process has been affected by particular factors in the Southeast Asian region: the ASEAN countries' particular concerns over state sovereignty, and their policy priorities in maintaining their domestic stability.

The argument in this study, briefly articulated above, leads to the conclusion that the suggestion to interpret the principle of non-interference in a more flexible way is premature for the countries of Southeast Asia. This is because, as will be argued in the concluding part, the political factors which affected the development of the "ASEAN

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Way" have not changed much. In this respect, this study demonstrates the case for strict adherence to the "ASEAN Way" and the non-interference principle.

Finally, it should be mentioned that the focus of this article on the reconstruction of global norms in a regional context concerns an important constructivist research agenda: the development of ideational structures, including norms.[5] Constructivists' studies focusing on norms may involve either of the following two aspects: the effects of norms on the behaviour of actors or the development of norms by actors through their agency. Today, most of the constructivists' empirical works focus on the first aspect.[6] This is why today's constructivists are criticized for not paying sufficient attention to the actors' construction of ideational structures despite their claim that structures and agents are mutually constitutive.[7] This study attempts to focus on the construction of norms by actors. Firstly, it discusses the elements of what is regarded as the "ASEAN Way" of diplomacy. The second section takes a critical view of the arguments concerning ASEAN's diplomatic style. The third section, which is the core of this research, explores the development of the "ASEAN Way". The concluding section considers an appropriate way forward for Southeast Asian diplomacy today.

What is the "ASEAN Way"?

Over the past few decades, the ASEAN countries have developed a unique style of diplomacy emphasizing an informal and incremental approach to co-operation through the habit of consultation and dialogue, while limiting to a minimum the level of institutionalization in the Association. An understanding of the "ASEAN Way" can be enhanced by considering its concrete elements. Many elements of ASEAN diplomacy are stipulated in the Treaty of Amity and Co-operation (TAC) in Southeast Asia signed in 1976. Article 2 of the TAC stipulated the doctrines of non-interference, the non-use of force, and the like.[8]

Since then, many authors have discussed what constitutes the "ASEAN Way".[9] Despite minor differences in their arguments, it is safe to say that the "ASEAN Way" has at least four elements: the principles of non-interference in the internal affairs of other members, quiet diplomacy, the non-use of force, and decision-making through consensus. Some of these elements do not seem peculiar to Asia; however, they need to be understood in the Asian context.

First, the principle of non-interference in the internal affairs of other members is one of the most important elements. The ASEAN countries avoid interference in any issues which can be regarded as the domestic affairs of other members.[10] Yet one may point out that this

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principle is not necessarily peculiar to Southeast Asia. In Europe, the same principle has been respected within the Conference/Organization for Security and Co-operation in Europe (CSCE/OSCE) process for decades. However, what is unique in Southeast Asia is the fact that this principle is coupled with the next element of the "ASEAN Way": the principle of quiet diplomacy. This second principle allows the ASEAN members to subdue any bilateral tensions. Each member refrains from criticizing the policies of others in public. With regard to the principles of quiet diplomacy, the importance of the "comfort level", as an important precondition for success in ASEAN's multilateral diplomacy should be noted. Raising the comfort level of the members involves lengthy, often ritualistic dialogue, without public criticism by any one member of another.

Thirdly, the principle of the non-use of force, or peaceful settlement of disputes, is equally important. This principle should be understood in the Asian context too. In the Western context, the words "non-use of force" or "peaceful settlement" imply the settlement of disputes through legal means. In contrast, the ASEAN members prefer a more informal approach to conflicts. The ASEAN norms encourage the members to seek the improvement of the situation in the long term by gradually promoting a sense of mutual trust. The "ASEAN Way" does not guide the members to "resolve" conflicts in the short term by defining territorial boundaries in a disputed area through legal means. The primary aim of ASEAN's approach is the prevention of escalation of conflicts by promoting mutual trust.[11]

Fourthly, the principle of decision-making through consensus should be noted. The ASEAN process does not impose a decision on its members by a majority vote. Again, this principle should be understood in the Asian context. Consensus-based decision-making has also been practised within the frameworks of other regional institutions, including the CSCE/OSCE. However, the connotations of the word "consensus" in Asia are different from those in other parts of the world. In Asia, what is important is a common understanding of an agenda achieved through lengthy dialogue and consultation. The procedural aspects of decision-making — or the actual number of votes — are less important. What seems peculiar to ASEAN, when compared to Europe, is the process of arriving at a consensus through a rather ritualistic manner, in a round-about, long-winded way.[12]

These four elements together constitute the "ASEAN Way", which emphasizes an informal approach to co-operation based on consultation and dialogue. It should be noted that these four elements are closely interrelated. For example, the fact that the Association as a whole does not play any role in resolving bilateral disputes between members can

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be understood in reference to the principles of non-interference, quiet diplomacy and consensus decision-making.

A Closer Examination of the "ASEAN Way"

In any discussion of the development of the "ASEAN Way", it should be noted that some analysts are sceptical of the validity of the diplomatic norms shared by the Southeast Asian countries. Such writers either deny the uniqueness of ASEAN's diplomatic style entirely or claim that what is regarded as the "ASEAN Way" is a mere reflection of the Southeast Asian countries' rational responses to a given political/security environment.[13]

However, it is hard to ignore the relevance of the "ASEAN Way". A brief glance at Southeast Asian diplomacy suggests that various elements of the diplomatic norms, including the principle of non-interference, have been valid. Recent examples include the Southeast Asian countries' attitudes towards the political turmoil in Indonesia, which led to the ousting of President Soeharto in 1998. In this case, the non-interference principle was "scrupulously adhered to by ASEAN members".[14]

Yet it is inappropriate to claim the validity of norms by observing actors' behaviours, which are meant to be influenced by norms. This is because such reasoning is tautological.[15] A more reasonable way to understand norms is to focus on the speech and writing of actors. After all, their speech and writing are internal components and expressions of the norm as a larger ideational structure which constitutes — and is constituted by — such rhetoric on their part.[16]

The fact that the ministers of the ASEAN countries, in their Joint Communiqués, frequently emphasize ASEAN's code of conduct, stipulated in the TAC, is notable in this respect.[17] A more convincing case is Bangkok's rhetoric employed in its proposal for "flexible engagement". For constructivists, one of the strong indicators of the validity of a norm is the actor's rhetoric in attempting to legitimize his behaviour, which might be inconsistent with the norm, by referring to it.[18] Since norms embody a quality of "oughtness", they prompt justifications for action, and leave an extensive trail of communication.[19] In this regard, it is noteworthy that the Thai Foreign Ministry attempted to justify its proposal by maintaining that flexible engagement would not violate the principle of non-interference. Bangkok held that there should be continued commitment to non-interference as the cardinal principle for the conduct of relations among the ASEAN countries: "A flexible engagement approach is fully consistent with ... [ASEAN's] commitment to the principle on non-interference".[20]

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It is safe to say that the diplomatic norms shared by the Southeast Asian countries are still valid among them. Then, the question arises as to what is the basis of the "ASEAN Way". One of the most commonly held arguments among researchers focuses on the traditional village culture of Indonesia. It holds that traditional Javanese culture is the origin of the Asian-style informal meetings which do not hold debates on contentious issues. Pushpa Thambipillai and J. Saravanamuttu are the pioneers of this line of argument. They suggest that ASEAN's consensus approach traces its origins to traditional Indonesian village culture, particularly its notion of *musyawarah* (the decision-making process through discussion and consultation) and *mufakat* (the consensus decision arrived at).[21] According to these authors, in the decision-making process in traditional villages, disagreements were not ruled out completely. However, they would rarely surface. Consensus was carefully built so that each of the participants' views formed a line of least deviation from their original stand.[22]

However, this line of argument is not satisfactory. If the politics of Southeast Asian countries were influenced by their traditional village culture, not only their international relations but also the domestic aspect of their politics would be informal and less institutionalized.[23] However, their domestic institutions are by no means informal in nature. Indeed, in the past, the nationalists in these countries, through their modernizing efforts, embraced the centralizing tendencies of Western law, and rejected local traditions, such as *musyawarah* and *mufakat*.[24]

Moreover, it should be noted that ASEAN consists of several countries, many of which do not share traditional Javanese/Indonesian village culture. It is true that Indonesia holds a very strong position within the Association. Yet it would be too much to say that its tradition forms the basis of the diplomatic norms of an Association whose members include a Catholic country, a Buddhist country, and so on. Therefore, the argument focusing on Javanese culture is not satisfactory.

With regard to the bases of the Southeast Asian diplomatic norms, Amitav Acharya suggests an interesting point. He notes that regional organizations, such as ASEAN, may learn their norms from global organizations or other regional groups. Their norms, however, also derive from the local political, social, and cultural environment.[25] For Acharya, the elements of the ASEAN norms belonging to the former category include the doctrines of the non-use of force and non-interference. These doctrines are enshrined in the UN Charter as well as in the founding documents of numerous regional organizations. The normative elements belonging to the latter category include the preference for informality and the principle of consensus.[26]

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Acharya's argument is potent, indeed. For an understanding of the development of the Southeast Asian diplomatic norms, it is appropriate to focus on both the global and local/regional aspects. Yet the elements of the ASEAN norms need not be categorized on the basis of their sources — that is, either the global arena or local/regional practices. Various normative elements, such as the principles of non-interference, the non-use of force and consensus decision-making, together constitute the "ASEAN Way", emphasizing an informal approach to co-operation. All of these principles, not merely a selection of them, should be understood in the Southeast Asian regional context. It is certainly likely that the diplomacy of the Southeast Asian countries has been affected by norms at the global level, and the basis of ASEAN's diplomatic doctrines include such norms. Yet the ASEAN countries' practices of such norms have to be understood in the particular context of Southeast Asia.

The recent conflict between ASEAN and the Western countries over the issue of interference justifies this claim. In the global arena today, the principle of non-interference is beginning to be interpreted in a less stringent way, as many domestic issues — notably those concerning matters of human rights — are starting to have external repercussions. In particular, the North American and European countries, which take part in the CSCE/OSCE process, have modified their interpretation of this principle, and agreed that human rights issues are no longer subject to it.[27] However, the ASEAN countries have been unwilling to adopt such an interpretation. This disjunction between ASEAN's regional practice and the changing norm at the global level has been a serious challenge to the Association.[28] Such a disjunction can only be understood when the regional aspect of the practice of norms is considered. In particular, it can be understood when the reconstituted aspect of norms is taken into account. The difference between ASEAN and the Western countries arises because the Southeast Asian countries have reconstituted the elements of the global norms, including the principle of non-interference, in the Asian context through the process of interaction over time.

For constructivists, norms are not exogenous to the process, and should not be treated as given and fixed. They can be reconstituted through the process of interaction between actors.[29] It should be maintained that the actors' interaction in a region should be understood in the particular context of the region. This is because their interaction is likely to be affected by the particular political factors in the region.

Therefore, it is worth exploring the particular political factors in Southeast Asia, which can be viewed as influencing the process of

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interaction among the ASEAN countries, through which the "ASEAN Way" has been developed. The reconstruction of global ideational elements as regional diplomatic norms can only be understood when the particular political factors in the region become clear. Thus, the central focus of the next section will be on these political factors in Southeast Asia.

Development of the "ASEAN Way"

As discussed above, for an understanding of the development of the "ASEAN Way", both global and regional aspects should be considered. This section argues that the ideational basis of the "ASEAN Way" is constituted by the norms at the global level, which had been valid prior to the establishment of the Association. The elements of such norms are stipulated in the UN Charter: the principles of non-interference and the non-use of force, and so on. These ideational components comprised the initial commitment in the 1960s when the Southeast Asian countries began to seek co-operation. These countries have incrementally reconstructed the ideational elements in the Asian context, thereby developing the "ASEAN Way", through their process of interaction over decades. This process has been affected by the particular political factors in Southeast Asia. Thus, the global norms have taken root in Southeast Asia in a particular context, as a set of diplomatic norms shared by the ASEAN members.

There are two political factors to be discussed, which have affected the Southeast Asian countries' interaction through which the global ideational elements have been reconstituted as the ASEAN norms: (1) the ASEAN countries' particular concerns over state sovereignty because of their historical experience; and (2) their policy priorities in maintaining their domestic stability because of their concern over domestic security issues.

Norms at the Global Level

Many important elements of the "ASEAN Way" are based on the norms practised in the global context for many years. In particular, ASEAN's principles of non-interference and the non-use of force are based on well-established doctrines inherent in the modern state system. These principles have been incorporated not only in the UN Charter but also in the founding documents of various regional organizations, such as the Organization of African Unity (OAU) and the Organization of American States (OAS). The ASEAN members have adopted these global principles in their regional international politics, through the process of ASEAN co-operation.

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It is notable that the members referred to the principles of the UN as the source of their regional norms, in their Kuala Lumpur Declaration of 1971. According to the Declaration, the ASEAN members were "inspired by the worthy aims and objectives of the United Nations, in particular by the principles of respect for the sovereignty ... of all states, abstention from threat or use of force, peaceful settlement of international disputes ... and non-interference in internal affairs".[30]

ASEAN Countries' Concerns over State Sovereignty

The ideational elements were present in the 1960s when the Southeast Asian countries started to seek co-operation. While focusing on these components is important, the discussion of the ASEAN norms would be insufficient without considering the political factors in Southeast Asia which affected the interaction between the countries in the region.

One of the factors to be discussed is the fact that historical experience had led them to consider state sovereignty as an essential element of national and regional security. Their security had always been threatened by one country's interference or intervention in the affairs of other nations. In these circumstances, ever since the countries of Southeast Asia established ASEAN, they have been greatly concerned about each other's sovereignty.

To begin with, until the middle of the twentieth century, with the exception of Thailand, all the ASEAN countries had been under colonial rule. Historical memories of a common colonial past have made all ASEAN countries very respectful of one another's sovereignty.[31] Next, after independence, many of their national security problems arose as a result of intervention or interference by outside powers in Southeast Asian affairs — the war in Indochina and the subsequent division of Southeast Asia between the communist bloc and the capitalist world being instructive. These interventions internationalized and worsened the local conflict, and the national security of each of the Southeast Asian countries was jeopardized. Moreover, China's interference in the domestic affairs of the ASEAN countries was viewed as a threat to their national security: Communist China had repeatedly attempted to "export" the communist revolution to Southeast Asia by supporting insurgencies, especially in the 1950s and 1960s. Because of these historical experiences, the ASEAN countries considered state sovereignty an essential element of national and regional stability.

Their concern over sovereignty had a strong influence on the development of their diplomatic norms. Because of the importance attached to sovereignty, they placed a particular emphasis on the principle of non-interference.[32] That is to say, this global principle stipulated in the UN Charter was consolidated in Southeast Asia because

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of the ASEAN countries' concerns over state sovereignty. The principle of quiet diplomacy was developed in the same way. This principle reflects their intention to respect each other's sovereignty. Moreover, the principle of consensus decision-making was also the result of their belief regarding state sovereignty. For them, such a decision-making style could protect national prerogatives by avoiding international pressure to force a government to adopt policies which had been decided externally.

Domestic Stability as ASEAN's Policy Priority

The other political factor which affected the Southeast Asian countries' interaction was their policy priorities in maintaining their domestic stability, owing to their concern over domestic security issues. They consolidated the principles of non-interference and the non-use of force through their interaction, partly because their main security concerns were internal, owing to their fragility in terms of socio-political cohesiveness.[33] They obtained their independence only in the middle of the twentieth century, and were still at an early stage of consolidating themselves as nation states. Hence, domestic uprisings were endemic in their societies, and they were greatly concerned with domestically generated threats to the security of the governments. It is argued that, in Southeast Asia, with the possible exception of Thailand which was never colonized, the state came before the nation. Therefore, the task of the governments of the newly-independent states was to commence the nation-building process while maintaining racial harmony, political stability, and economic development.[34] All of these aspects have always been vital to national security in these states since the post-independence governments inherited a multi-ethnic political entity, with a weak economic basis, from the colonial powers after the end of World War II. While the governments' priority was to engage in nation-building, they experienced numerous civil wars, violent insurgencies, armed rebellions, and many racial, ethnic, and religious riots. Therefore, for them, the maintenance of domestic political stability and the promotion of economic development, which serves as the basis of a stable political environment, were important security agendas.

In the case of Indonesia, its obsession with internal sources of insecurity was the product of the first few decades of independence, during which the central government had to deal with a multitude of domestic challenges, including regional rebellions, Islamic insurgencies, and abortive communist coups.[35] Indonesia's long history and experience with internal disturbances and rebellion made the Jakarta political leadership aware of the importance of internal political stability.[36] Malaysia's strategic culture was also traditionally inward-looking, and

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such a view had been reinforced by a few important defining events in the country's post-independence history, including the racial riots in 1969.[37] In the case of the Philippines, one could observe the continued prevalence of private armed forces, particularly in the countryside, including rebel guerrillas and paramilitary groups. Thus, internal security remained the priority for its government.[38] With regard to Thailand, leadership changes and political confusion in the 1970s sum up its weakness in terms of socio-political cohesion. In the late 1960s and 1970s, students and other citizen groups joined in contesting the legitimacy of the military regime and its core political values. Lastly, in the case of Singapore, the government confronted electoral challenges and labour unrest in the 1950s and 1960s. Furthermore, Singapore's multi-ethnic society experienced a few ethnic riots, including the clash between Malays and Chinese in 1964.

Since the ASEAN countries' primary security concerns were in their domestic fields, the principle of non-interference was one which they jealously guarded.[39] The ASEAN members advocated this principle in the context of their efforts at nation-building.[40] It enabled them to concentrate on domestic matters while maintaining co-operative relations with other countries. Interference would have hindered international co-operation because, for each member, any interference from other states would have been an obstacle to nation-building. Regional order could not be maintained without an agreement on the fundamental importance of domestic stability and regime security, anchored in the principle of non-interference.[41] The ASEAN countries consolidated the global principle of non-interference in the Southeast Asian region against such a background.

Indeed, the establishment of ASEAN itself was one of the occasions on which they consolidated the non-interference principle. When they established ASEAN, they were determined not to allow their bilateral tensions to jeopardize their common goals of nation-building and regime maintenance.[42] As Dewi Fortuna Anwar argues, before the establishment of ASEAN, it was not uncommon for these countries to exploit internal conflicts in the neighbouring states — examples include Malaysia's assistance to the rebels in an uprising in Indonesia in 1958.[43] During the 1950s and 1960s, various bilateral disputes existed between the Southeast Asian countries, and earlier attempts to create a regional multilateral framework failed because of these disputes. The Association of Southeast Asia (ASA), established in 1961, collapsed as a result of the Philippines' claim to Sabah, which later joined the Malaysia federation. The plan to establish MAPHILINDO, a loose ethno-cultural association involving Malaysia, the Philippines and Indonesia, failed

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because of the confrontation between Kuala Lumpur and Jakarta. For the Southeast Asian countries, the failure of ASA and MAPHILINDO were bitter experiences. Through these experiences, they learned the importance of the principles of non-interference and the non-use of force in relations between countries which were weak in terms of socio-political cohesiveness.

Moreover, the importance of the principle of the non-use of force can also be understood with reference to the ASEAN members' weak socio-political cohesion. For each weak state, national security was to be achieved through the maintenance of domestic stability in the political, economic, and socio-cultural areas. A strong military capability, designed to carry out an attack against foreign countries, would have been useless in coping with domestic problems. Therefore, broadly speaking, the security doctrines of the ASEAN members were inward-looking and non-militaristic in nature.

The ASEAN countries' operational security doctrines focused on the concepts of "regional resilience" and "national resilience",[44] and they have consolidated the principle of the non-use of force through their pursuit of these doctrines. National resilience would be achieved by resilience in various aspects of the domestic field, including the political, economic, socio-cultural, and security areas. For these "weak" countries, such an inward-looking and non-militaristic approach was necessary. It was in strong contrast to the traditional notion of national defence, which calls for strong military power to deter enemy attack.

National resilience was originally the security doctrine of Indonesia. This concept emerged in the 1960s, after President Soeharto assumed power, and was officially proclaimed in 1973. It was based on the Soeharto government's intention to focus on domestic problems and economic development, with the aim of achieving security by emphasizing non-military measures, in particular, economic development and social justice.[45]

Regional resilience was to be achieved through the enhancement of each ASEAN member's national resilience. ASEAN's approach to regional security, based on the doctrine of regional resilience, was passive, inward-looking and non-militaristic in nature. It was in contrast to the traditional notion of collective defence. The aim of collective defence is to deter an attack from outside powers by maintaining a strong military capability. Apparently, many aspects of national and regional resilience overlap with the principle of the non-use of force. In this respect, ASEAN's practice of the doctrines of national and regional resilience, which were non-militaristic in nature, promoted the construction of the "ASEAN Way".

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Conclusion

The four elements of the "ASEAN Way" — the principles of non-interference in the internal affairs of other members, quiet diplomacy, the non-use of force, and decision-making through consensus — are not necessarily peculiar to Asia alone. They have been stipulated in the UN Charter, and have also been practised in various regional arrangements. However, the Southeast Asian countries' practice of these principles should be understood in the ASEAN context. This is because they have reconstructed the diplomatic norms at the global level in the regional context, thereby constructing the "ASEAN Way", through the process of interaction over decades.

The ASEAN countries have consolidated their diplomatic norms through their interaction, and this process has been affected by the particular political factors in the region. Firstly, their historical experiences have made them greatly concerned with state sovereignty. ASEAN's diplomatic principles of non-interference and quiet diplomacy reflect its members' intention to respect each other's sovereignty. Secondly, their policy priorities are designed to maintain domestic stability. The principle of non-interference has been valuable for the ASEAN countries as it has enabled them to concentrate on their own nation-building process.

ASEAN Diplomacy Today

It was noted in the introductory section that there has been a debate over the interpretation of the principles of the "ASEAN Way", and that this debate is still ongoing. Having examined the development of the "ASEAN Way", it might be appropriate to address the issue of regional diplomacy today. It seems inappropriate to alter the interpretation of the principles of the "ASEAN Way" because the particular political factors in Southeast Asia which affected the reconstruction of the diplomatic norms have not changed drastically. To begin with, the ASEAN countries' particular concerns over state sovereignty have not diminished. It is reasonable to state that the political and economic crisis in the late 1990s consolidated their concern over sovereignty because the cause of the crisis was partly, if not entirely, external.

Equally important is the fact that many of them are still weak in terms of socio-political cohesiveness. It is true that, today, some ASEAN members have become economically and politically stable. However, many others are still weak states. Their main security concerns still include domestic issues, and the maintenance of domestic stability has remained high on their political agenda. Again, in this regard, the political and economic turmoil in the late 1990s, which affected many

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Southeast Asian countries, needs to be noted. It should be emphasized that the new members of ASEAN in the 1990s — Vietnam, Myanmar, Laos and Cambodia — are even weaker than the original six members: Indonesia, Malaysia, Thailand, Singapore, the Philippines, and Brunei (which joined in 1984). These countries are still at the very early stage of nation-building, and preoccupied with various domestic political/security issues.

It is for these reasons that the Southeast Asian countries' diplomacy still needs to be understood in the traditional ASEAN context. The suggestions to interpret the non-interference principle in a more flexible way are premature for the countries of Southeast Asia, many of which are still weak in terms of socio-political cohesiveness. This principle should continue to be interpreted in a strict sense. Nevertheless, ASEAN is currently facing various challenges, including issues concerning the environment, financial markets, transnational crimes, and so on — hence the growing advocacy for the modification of the non-interference principle to enable the regional entity to deal with these issues effectively. Jusuf Wanandi maintains that:

> Many of the old principles ... for example, the informal style of co-operation .. [have] proved inadequate ... Domestic problems such as the financial crisis, drug-trafficking, environmental hazards ... transnational crimes ... are regional problems. They call for regional ... co-operation and solutions.[46]

However, such arguments are, in this writer's view, unsatisfactory in that they fail to take into consideration the most important point at issue. For the countries which are against a flexible interpretation of the "ASEAN Way", such issues as the environment, financial markets, and transnational crimes do not constitute the main reason for their opposition. Indonesia is one of the countries which did not support the Thai proposal for flexible engagement. The central reason behind Indonesia's opposition did not concern these issues, as evidenced by Jakarta's response to the environmental problem caused by smoke pollution originating from the country in 1997. Jakarta even apologized to its neighbouring countries, including Singapore, which had quietly complained about the problem.[47] It is also notable that, when Bangkok put forward its proposal in July 1998, Indonesia's Foreign Minister, Ali Alatas stated, "we can talk about certain problems like transnational crimes", while warning that the non-interference principle was a "very basic principle".[48] For post-Soeharto Indonesia, the most crucial issues are human rights and democracy, rather than the environment, economics, and transnational crime. Thus, Alatas continued, "if you start talking [about] how a country must run affairs like ... democratizing, or ... human rights, then you are getting into trouble".[49]

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The issue of human rights and democracy concern nation-building. They may become an obstacle to nation-building. This is why many of the ASEAN countries, including Indonesia, which are still "weak" and in the process of nation-building, find it difficult to accept any proposal for modifying the "ASEAN Way".

In sum, it is submitted that proposals and arguments to modify the interpretation of the non-interference principle are, at this stage, premature for ASEAN. This claim by no means implies that the issue of human rights and democracy are unimportant. Yet, unlike the case of the financial crisis and the like, these issues are not to be resolved by efficient multilateral interventionary measures or settled by policy co-ordination among members and outside parties. An ASEAN country's interference into the human rights problems of another member may simply worsen the situation by isolating the other member and by damaging the unity among the Association's members. ASEAN's unity can only be maintained by strict adherence to the "ASEAN Way". In this respect, one of the serious tasks which ASEAN is facing today is to find an "ASEAN Way" to improve the human rights situation in Southeast Asia.[50]

NOTES

1. In this research, unless otherwise stated, the term "ASEAN countries" refers to its five original members — Indonesia, Malaysia, Thailand, Singapore, the Philippines — which have been fostering the "ASEAN Way" for decades.
2. Jusuf Wanandi, "ASEAN's Past and the Challenges Ahead: Aspects of Politics and Security", in *Reinventing ASEAN*, edited by Simon S.C. Tay, Jesus P. Estanislao, and Hadi Soesastro (Singapore: Institute of Southeast Asian Studies, 2001), p. 30.
3. Simon S.C. Tay and Jesus P. Estanislao, "The Relevance of ASEAN: Crisis and Change", in *Reinventing ASEAN*, edited by Simon S.C. Tay, Jesus P. Estanislao, and Hadi Soesastro (Singapore: Institute of Southeast Asian Studies, 2001), p. 19.
4. Press briefing by H. E. Foreign Minister on Flexible Engagement, at Manila Hotel, Manila, 24 July 1998, Press Release No. 705/2541, Ministry of Foreign Affairs (24 July 1998).
5. Norms are structural properties in that they are to be "shared" by actors. Norms can be broadly defined as "shared (thus, social) understandings of standards for behaviour". Audie Klotz, *Norms in International Relations: The Struggle against Apartheid* (Ithaca: Cornell University Press, 1995), p. 14.
6. Examples include all the empirical works in Peter J. Katzenstein, ed., *The Culture of National Security: Norms and Identity in World Politics* (New York: Columbia University Press, 1996).
7. Jeffrey T. Checkel, "The Constructivist Turn in International Relations Theory", *World Politics* 50 (January 1998): 340–42.
8. Treaty of Amity and Cooperation in Southeast Asia (Indonesia, 24 February 1976).
9. See, for example, David Capie and Paul Evans, *The Asia-Pacific Security Lexicon*

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(Singapore: Institute of Southeast Asian Studies, 2002), pp. 14–27; Jürgen Haacke, "The Concept of Flexible Engagement and the Practice of Enhanced Interaction: Intramural Challenges to the "ASEAN Way", *Pacific Review* 12, no. 4 (1999): 584–85; and Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London: Routledge, 2001), Chapter 2.

10. Yet, strictly speaking, there have been some exceptional cases in which the ASEAN countries involved themselves in the domestic affairs of fellow members. See Haacke, "The Concept of Flexible Engagement", pp. 583–84; and Robin Ramcharan, "ASEAN and Non-Interference: A Principle Maintained", *Contemporary Southeast Asia* 22, no. 1 (April 2000): 80–81.
11. To be sure, ASEAN does have a mechanism of dispute settlement, the High Council, which was established when the TAC was signed in 1976. However, it has never been used until now.
12. Pushpa Thambipillai and J. Saravanamuttu, *ASEAN Negotiations: Two Insights* (Singapore: Institute of Southeast Asian Studies, 1985), p. 25.
13. See, for example, Miles Kahler, "Legalization as Strategy: The Asia-Pacific Case", in *Legalization and World Politics: A Special Issue of International Organization*, edited by Judith Goldstein, Miles Kahler, Robert O. Keohane, and Ann-Marie Slaughter, 54, no. 3 (Summer 2000): 549–71; and Tobias Ingo Nischalke, "Insights from ASEAN's Foreign Policy Co-operation: The "ASEAN Way", a Real Spirit or a Phantom?", *Contemporary Southeast Asia* 22, no. 1 (April 2000): 89–109.
14. Ramcharan, "ASEAN and Non-Interference", p. 77.
15. See Peter Katzenstein, "Conclusion: National Security in a Changing World", in Katzenstein, *The Culture of National Security*, p. 509; and Jeffrey W. Legro, "Which Norms Matter? Revisiting the 'Failure' of Internationalism", *International Organization* 51, no. 1 (Winter 1997): 33–34, 57.
16. Note that, for constructivists, the relationship between structures and agents is one of mutual construction. See Alexander Wendt, "The Structure-Agent Problem in International Relations Theory", *International Organization* 41, no. 3 (Summer 1987): 335–70.
17. See, for example, "Joint Communiqué: The 35th ASEAN Ministerial Meeting" (Bandar Seri Begawan, 29–30 July 2002).
18. Thomas Risse and Kathryn Sikkink, "The Socialization of International Human Rights Norms into Domestic Practices: Introduction", in *The Power of Human Rights: International Norms and Domestic Change*, edited by Thomas Risse, Stephen C. Ropp, and Kathryn Sikkink (Cambridge: Cambridge University Press, 1999), p. 30.
19. Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change", *International Organization* 52, no. 4 (Autumn 1998): 892.
20. "Thailand's Non-Paper on the Flexible Engagement Approach", Press Release No. 743/2541, Ministry of Foreign Affairs, Thailand, 27 July, 1998.
21. Thambipillai and Saravanamuttu, *ASEAN Negotiations*, pp. 11–13.
22. Ibid., pp. 11–12.
23. Kahler, "Legalization as Strategy", pp. 560.
24. Ibid.
25. Acharya, *Constructing a Security Community in Southeast Asia*, p. 47.
26. Ibid., pp. 47–70.
27. Conference for Security and Co-operation in Europe, "Helsinki Document 1992: The Challenges of Change, Helsinki Decisions", Helsinki, 9–10 July 1992.
28. Acharya, *Constructing a Security Community in Southeast Asia*, p. 206.
29. See Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University

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Press, 1999), esp. pp. 185–86, and Chapter 7; and Anthony Giddens, *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis* (London: Macmillan, 1979), p. 5, 69, 71.

30. Zone of Peace, Freedom and Neutrality Declaration, Manila, 27 November 1971.
31. Peter J. Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective", in *Network Power: Japan and Asia*, edited by Peter J. Katzenstein and Takashi Shiraishi (Ithaca: Cornell University Press, 1997), p. 32. See also Desmond Ball, *Strategic Culture in the Asia-Pacific Region*, Working Paper No. 270 (Canberra: Strategic and Defence Studies Centre, Australian National University, 1993), p. 9.
32. See Capie and Evans, *The Asia-Pacific Security Lexicon*, p. 20.
33. Barry Buzan's distinction of "strong states" and "weak states" is useful in understanding the security concerns of the ASEAN members. The principal distinguishing feature of weak states is their high level of concern over domestically generated threats to the security of the government. Barry Buzan, *People, States and Fear: An Agenda for International Security Studies in the Post-Cold War Era*, second edition (Boulder, Colorado: Lynne Rienner, 1991), pp. 97–102.
34. K.S. Nathan, "Malaysia: Reinventing the Nation", in *Asian Security Practice: Material and Ideational Influences*, edited by Muthiah Alagappa (Stanford: Stanford University Press, 1998), p. 547.
35. Dewi Fortuna Anwar, "Indonesia: Domestic Priorities Define National Security", in Alagappa, *Asian Security Practice*, p. 489.
36. Mochtar Kusuma-Atmadja, "Some Thoughts on ASEAN Security Co-operation: An Indonesian Perspective", *Contemporary Southeast Asia* 12, no. 3 (December 1990): 163.
37. Chin Kin Wah, "Reflections on the Shaping of Strategic Cultures in Southeast Asia", in *Southeast Asian Perspectives on Security*, edited by Derek Da Cunha (Singapore: Institute of Southeast Asian Studies, 2000), p. 10.
38. Noel M. Morada and Christopher Collier, "The Philippines: State Versus Society?" in Alagappa, *Asian Security Practice*, p. 550.
39. Ball, *Strategic Culture in the Asia-Pacific Region*, p. 9; and Acharya, *Constructing a Security Community in Southeast Asia*, p. 57.
40. Herman Kraft, *The Principle of Non-intervention and ASEAN: Evolution and Emerging Challenges*, Working Paper No. 344 (Canberra: Strategic and Defence Studies Centre, the Australian National University, 2000), p. 2.
41. Acharya, *Constructing a Security Community in Southeast Asia*, p. 58.
42. Michael Leifer, *The ASEAN Regional Forum: Extending ASEAN's Model of Regional Security*, Adelphi Paper No. 302 (Oxford: Oxford University Press; London: International Institute for Strategic Studies, 1996), p. 14.
43. Dewi Fortuna Anwar, "Twenty-Five Years of ASEAN Political Co-operation", in *ASEAN in a Challenged Regional and International Political Economy*, edited by Hadi Soesastro (Jakarta: Center for Strategic and International Studies, 1995), p. 120.
44. These two doctrines were spelled out in Article 11 of the TAC. Treaty of Amity and Cooperation in Southeast Asia, Indonesia, 24 February 1976.
45. David B. Dewitt "Common, Comprehensive, and Co-operative Security", *Pacific Review* 7, no. 1 (1994): 3.
46. Wanandi, "ASEAN's Past and the Challenges Ahead", p. 30.
47. Ramcharan, "ASEAN and Non-Interference", p. 70.
48. Stephen Powell, "ASEAN in Unprecedented Openness Debate — Philippines", Reuters News, 24 July 1998.
49. Ibid.

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50. I am indebted to Daljit Singh (Institute of Southeast Asian Studies), Professor Lee Lai To (National University of Singapore), and Dr Pranee Thiparat (Thai Institute of Security and International Studies). While I acknowledge the valuable advice and assistance of these individuals, I take responsibility for any errors or omissions in this article.

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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

AFTA and MERCOSUR at the Crossroads: Security, Managed Trade, and Globalization

EUL-SOO PANG

Small and medium-sized free trade agreements have inherent difficulties in growth and expansion in the global economy which amounts to more than US$30 trillion. Neomercantilist ASEAN's share of the global exports was 6.5 per cent in 2000, while that of neoliberal MERCOSUR was less than 2 per cent. Furthermore, the trade within ASEAN has not been growing for the past three decades, averaging about 20 per cent of the total volume. MERCOSUR's average has been on par with ASEAN's. This article argues that the two regional markets have reached the optimum point of intra-regional trade creation under the existing political economy models. Post-11 September security issues are further complicating the regional integration. The two regions need to revisit the existing inter-state alliance structure and invent new security regimes. The alternative is not whether the two regions must retain neomercantilism or reject neoliberalism; rather it is how to blend the two systems so that the model can satisfy the domestic political needs and at the same time enable economic growth in the next phase of globalization.

"If I had a billion US dollars I suspect I too would be very committed to a fully globalized world without any barriers and without any constraints on what I can do with my money and how I can make even more money."

— Mahathir Mohamad, *Globalization and the New Realities* (Kuala Lumpur: Pelanduk Publications, 2002), p. 35.

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The World After 11 September 2001

In early 2002, the collapse of the Argentine neoliberal economy almost wrecked the Common Market of the South (MERCOSUR). The heightened global campaign against the al-Qaeda and Taliban-sponsored terrorism in the Pakistan-Afghanistan theatre, the Middle East, and now in Southeast Asia has deeply lacerated the fragile unity of the Association of Southeast Asian Nations (ASEAN) and has cast doubts about the viability of the long-awaited birth of the ASEAN Free Trade Area (AFTA).[1] The election of a leftist union leader to the presidency of Brazil late in 2002 has fortified the xenophobic nationalist-populist opposition to neoliberalism in Latin America and has questioned the MERCOSUR's ability to revive the moribund Argentina. Earlier, the North American Free Trade Agreement (NAFTA) helped Mexico to recover from its *peso* meltdown of 1994–95, but ASEAN has failed to do the same for Indonesia, Thailand, and Malaysia after the 1997–98 crisis.

The bombing in Bali, Indonesia, on 12 October 2002 has exposed the ASEAN countries to the seeming invincibility of the home-grown Islamic radicalism, now firmly linked to the Middle Eastern, Pakistani-Afghan, and Southern Philippine varieties. The movement, which has become global, has been seeking to destroy at least four of the five linchpins of ASEAN and supplant them with a single, unified Islamic nation (Darul Islam).[2] This is a globalization, politico-religious and even ethnocentric, that Southeast Asia did not anticipate a few years ago. Authorities in Singapore, Malaysia, the Philippines, and Indonesia have stepped up the containment strategy by policing and arresting Islamic radicals. Security has once again become the principal driver that has replaced the regional growth and development strategy. Not since the Vietnam War has Southeast Asia been confronted with such a divisive force that can potentially render ASEAN/AFTA useless and fragmentary. The objective of this article is to argue that the security concerns in Southeast Asia after 11 September and the crumbling promise of neoliberalism in South America will effectively prevent the regions from realizing their dream of building the next level of growth-generating regional markets. In Latin America, the peril is the allure of the nationalist-populist and *dirigiste* past, while in Southeast Asia the clash between Islamic and non-Islamic political forces seems more than real. Security issues at home and abroad have diverted much of the attention and resources from the ASEAN/AFTA project, while the intense search for a new domestic political economy model by Argentina and Brazil will postpone any supranational project of MERCOSUR for a while.

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Problems with Small Regional Free Trade Arrangements[3]

For the past four decades, the world has witnessed four different types of regional free trade agreements or regional market arrangements in the making: the union of mixed economies practising at once both neomercantilist and neoliberal political economy strategies, as in the European Union (EU); the socialist economies of the former Warsaw Pact countries in Eastern Europe; and a group of neomercantilist, state-driven economies like ASEAN and quasi-neoliberal MERCOSUR, both with an industrial policy and managed trade practices; and finally, the club of neoliberal and quasi-neoliberal countries like NAFTA with regulated but open free market systems.[4]

The first (the EU) has become a viable external tariff union and free trade regional market with a single currency, a host of co-ordinated regionwide public policies in place, and an increasing proclivity to neoliberalism. The second (the socialist system) is now defunct and disappeared in 1991 with the collapse of the Soviet Union. Almost all Eastern European transitional economies, except Bulgaria and Romania, will be joining the EU by 2004. The third is the focus of this article. The fourth (NAFTA) plays a broker role for the creation of two larger regional market systems, the Asia Pacific Economic Co-operation (APEC) for the Pacific Basin by 2010 (for developed countries) and 2020 (for developing countries) and the Free Trade Area of the Americas (FTAA) Agreement for the Western Hemisphere by 2005. For the past decade, the global economy has been the battleground for three surviving international political economy systems: (1) in Europe, a coterie of social democracy (Sweden, Austria), a variation of social market capitalism (Germany, France, the Netherlands), a private enterprise-driven free market system (Britain, Ireland), and economic condominium of family-owned and state-owned enterprises (Italy and Spain); (2) neoliberalism in the Americas; and (3) neomercantilism in East Asia. In every case, the state and the market have conspired to increase national wealth through a blending of free or managed trade and crossborder investment arrangements.

Security has played a formative role as a catalyst in the EU, ASEAN, and MERCOSUR for regional market integration. In the ASEAN case, security issues have interfered with fuller economic integration, while the members of the European Union have successfully used security as a building block for the creation of the continent-wide market. Security concerns have also driven the former client states of the USSR in Eastern Europe to join both the North Atlantic Treaty Organization (NATO) and the EU to thwart future re-incorporation by Russia. In the case of MERCOSUR, the common need for the members to co-ordinate

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each other's "internal security" concerns during the two and half decades of military dictatorship (1964–90) has paved the way for the establishment of Latin America's first *working* regional trade area.[5] However, the consequences of the horrific events of 11 September in the United States and the growing security threats to Southeast Asia from Islamic radicalism will interfere with the smooth operation of a free trade area in the region for years to come.

Small and medium-sized regional market arrangements, such as ASEAN (6.5 per cent of the world trade in 2000) and MERCOSUR (just over 1 per cent of the world total) in recent years have not been able to expand intra-regional trade beyond the historical threshold, although they have served well the intended political purposes. The trade creation and diversion occurred in extra-regional markets, especially in the United States, the European Union, and Japan. Security interests have often preceded the desire to enhance and forge the common economic, commercial, and financial interests. Industrial policy and managed trade practices have also impeded a fuller free trading regional market in neomercantilist Asia. This is more so in ASEAN and to an extent in the EU than in MERCOSUR and NAFTA. To advance the free trade agenda, the ASEAN countries needed confidence-building sessions, conflict resolution training, and peaceful negotiation procedures. Rich members assisted (and still do) in training civil and military servants of East Timor, Myanmar, and three Indochinese states.

Mahathir's attempt to set aside security issues and push instead an Asia for Asians project (the East Asia Economic Caucus, followed by ASEAN Plus Three) in an effort to build a rival power centre to be co-equal to Europe and the United States has not advanced much. The "Three" are Japan, China, and South Korea. Japan dreams about reviving old hegemonic Asian Co-Prosperity goals, while Korea seeks its share of unhindered access to the region's natural resources and investment opportunities. China has a special interest in the region where more than 34 million ethnic Chinese live, work, and wield power.[6] The East Asian Economic Caucus was "closed" to outsiders, specifically to exclude ex-colonial powers and the United States from the region. By contrast, ASEAN Plus Three is "open"[7] and designed to give a stronger voice to Southeast Asia by riding on the back of the three Northeast Asian economic and military dynamos to confront the United States and Europe. The attempt to reconcile the divergent interests of the "Three" with ASEAN's has not worked well.

The Philippines and Thailand still retain security ties with the United States and will be reluctant to openly embrace Mahathir's agenda, especially in the post-11 September world where Islamic insurgencies in their own countries could expand. Singapore leases its

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Changi Naval Base to the United States. The Malaysian Prime Minister will continue to be the most important Muslim interlocutor, championing anti-West and anti-U.S. policy objectives. If seen as extreme, Mahathir can inject a new divisive dimension in the region's security. Southeast Asia built ASEAN as a common security bulwark back in the 1960s, but the very rationale for the creation of the group was to appease the then regional military power, Vietnam. In the mid-1960s, the region was divided by two scenarios: either Vietnam would win the Indochinese War and dwarf over the region, or the United States would be forced to leave the region, abandoning its allies.[8] Southeast Asian countries were betting on both and sought ways to survive in the post-Vietnam War era. Since then, ASEAN has been driven by two strong voices — Malaysia and Indonesia — with Singapore, Thailand, and the Philippines occasionally dissenting from the agenda of the two Muslim countries.

Diversity has given way to the façade of ASEAN's determination to stand as one, but has also weakened the regional integration to speak with a single voice and to act with resolve. Instead, the celebrated "ASEAN Way" has embedded a political culture — abstinence from meddling in neighbour's affairs, even if they violate human decency; addiction to non-binding, consensual, often watered down, "one size fits all" agreements, to produce the appearance of collective commitment, or at worst, to allow graceful exit from the commitment without losing face; and hence, emphasis on conflict avoidance, not conflict resolution that might extract an unwarrantedly high price.

The two largest economies of Asia — China and Japan — have not shown the kind of leadership in forging the Asian states into a single group, as France and Germany have done for Europe. The contentious Sino-Japanese friction dating back to the centuries of hostile history, and most recently, mutual recrimination emanating from World War II and the Cold War era has put the two countries at loggerheads. Instead, "middle power" states, such as Malaysia and Thailand, have advocated the creation of the super-regional group, ASEAN Plus Three. This has often forced the smaller Asian states into an awkward position of distancing themselves from the two regional superpowers, one economic and the other military. Past communist revolts in Southeast have not helped.

Indonesia, Malaysia, the Philippines, and Singapore experienced the communist insurgency in the 1950s and 1960s, many of which were financed by the People's Republic of China (PRC) and led by the local Chinese. Singapore and Malaysia, with a large segment of their populations sympathetic to communist China, avoided provoking the Asian communist countries with inflammatory policies; Indonesia under Soeharto took severe measures against all communists and Muslim

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militant fundamentalists in the republic; the Philippines and Thailand allowed the United States to set up military bases on their soil from which attacks were launched against communist Vietnam, Laos, and Cambodia. The end of the Cold War in Europe helped to ease tensions in Asia to a degree, but the ongoing Asian version of the Cold War has yet to redefine the newly emerging relationship between China and ASEAN on the one hand and the Middle Kingdom on the other, against Japan, Korea, and Russia. The induction of the three Indochinese states into ASEAN was one such political step of reconciliation and incorporation of the communist and socialist neighbours into the prosperous regional economy, which prevented them from falling into the Chinese orbit, like North Korea.

Latin America's MERCOSUR and ASEAN's Free Trade Area are the third and fourth largest regional economies in the world measured in gross domestic product (GDP) terms, and each has a different historical etiology and offers contrasting paradigms. In both cases, security interests — domestic opposition and external threats — have paved the way for the formation of the economic union. In the ASEAN case, outsiders, especially Japanese, have often suspected that the unspoken but common regional concern for the spillover effect of the war in Indochina figured prominently for the establishment of ASEAN, an organization that purportedly had no military agenda at the height of the Cold War.[9] It should be pointed out that politicians and academics in the ASEAN countries have uniformly adopted, until very recently, the practice of not discussing potential security conflicts with China, Vietnam, and other unfriendly neighbours. In fact, the prevalent thinking has been that all conflicts can be resolved through negotiations and compromise, the twin bedrock thinking of "middle power" diplomacy.[10] Moreover, ASEAN has honed to the level of art the ability to avoid rather than solve conflicts. This postponing of regional conflicts and claims will resurface down the road to haunt the members, as the current confrontations between the secular state and Islamic radicalism heat up.

Equally unwilling to offend its major extraregional trading partners and current and potential security associates such as the United States, the European Union, Japan, Korea, China, Australia, New Zealand, and Russia, ASEAN has invited them as external observers to myriad activities, most notably to the security-driven ASEAN Regional Forum (ARF).[11] Nowhere in the world have the global economic superpowers such as the United States, Japan, and China been so willing to accommodate the whims of small countries. The security concerns that this group of superpowers jointly shares in the Asia-Pacific have generated their enthusiastic participation. Eleventh September has

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challenged the ARF to redefine itself and, so far, the Asian members have been either ignoring the incumbency or loathing to consider it. There is no ASEAN collective strategy to deal with Muslim fundamentalism, but signs for regional collaboration in intelligence collection and sharing, extradition, policing, and security co-ordination are budding.

Indonesia has proposed to set up a task force to combat terrorism throughout Southeast Asia and sponsored an international conference with some thirty countries participating,[12] while Manila sponsored a three-day anti-terrorism workshop for five ASEAN countries.[13] Thailand for now frets over the potential contagion from Muslim terrorism in Southeast Asia, although officially denying that al-Qaeda allies operate in the country.[14] In spite of these positive developments, the consensus is that the governments in the region have not been fully co-operating while major al-Qaeda leaders are at large, hiding throughout Southeast Asia.[15] However, the region's governments will act only after another Bali-like bombing, or when regime stability is seriously threatened by the Islamic terrorists.

None wants to see the consolidation of regional hegemony by a single power by taking advantage of the 11 September situation. China seeks ways to keep the United States out of the Pacific; Japan invests heavily to be engaged in the region without being overrun by China, and the United States refuses to set the limit of its Asia-Pacific influence in Guam. The United States, especially since 11 September, sees in Southeast Asia critical security partners in its global campaign against terrorism. The region can anticipate more respect and hospitality from Washington than ever before, not for the logic of ASEAN, but for the critical role the region can play in Washington's global security strategy.

These security concerns are firmly shaping the economic and financial landscape on which the superpowers will play in Southeast Asia. After 11 September, for the United States, security supersedes money, and for Southeast Asia, money will redefine security. Japan and the United States are the first and third largest lenders of bank credit to Southeast Asia, while China does not figure among the top ten global lenders. In many countries in the region, the United States and Japan are the foremost investors and the presence of their multinationals in the manufacturing and service sectors is vital for the economic diversification and growth of the region. The United States and Japan import more from the ASEAN-10 than China from its ten southern neighbours. Japan, Taiwan, and Korea export to the American market from their Southeast Asian platforms in Malaysia, Thailand, Indonesia, and Singapore. However, China has additional resources that neither the United States nor Japan can command. China entertains the notion

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that it alone can rely on 34 million overseas brethren, although the intra-Chinese historical rivalry and suspicion could prevent this from becoming a reality.

The overseas Chinese have always had a keen interest in the old country. The Chinese in San Francisco, Penang, and London were the "Mother of the Revolution" of 1911 and practically bankrolled it.[16] The communist insurgency of the late 1940s until the early 1960s was financed and dominated by local Chinese with strong Beijing (formerly Peking) support. In spite of their devotion to the motherland, leaders of the People's Republic of China have been ambivalent about the dependability of the overseas Chinese to do their bidding. Chou (Zhou) En-Lai once called Lee Kuan Yew a "banana", a pejorative reference to someone who is yellow on the outside and white on the inside.[17] The veracity of this unkind epithet notwithstanding, Lee's greatest concern was how to forge a self-reliant independent Singapore surrounded by suspicious neighbours, not a beachhead to be manipulated by the "kinsman" of China.[18] It is this peculiar but explosive cauldron of history, security, cultural rivalry, ethnic jealousy, and mistrust in which the regional market, AFTA, will have to operate.

Obviously, ASEAN and its partners consider security issues more important than trade and finance. This explains the welcomed presence of the outer four, Vietnam, Cambodia, Lao Democratic People's Republic, and Myanmar. Their combined economic role in the region is minor and in the world economy miniscule.[19] However, their potential political instability can increase the region's security risk. The largest economy of the region, Indonesia, is prostrate and has shown signs of revival but its secessionist crises in the outlying islands and political stalemate in Jakarta can derail the economic recovery. The potential for security mischief and mishap in the region is real and well recognized. ASEAN prosperity depends on regional harmony and peace, as well as its unhindered access to the United States, Japan, and the EU, three of the world's largest markets. No international capital flows into the region and trade within and without the region can be sustained if Southeast Asia is deemed an unstable security risk.[20] The Bali bombing in mid-October 2002 may be just the beginning of the security deterioration of the region and the harbinger of what will be in store.

Political integration and trade expansion have come to depend on the free flows of *intra-regional* foreign direct investment (FDI). For decades MERCOSUR countries have shared the similar history of *soft state capitalism,* or a form of *dirigiste* "command and control" economy with an inward-looking development policy built on import substitution, populist consumption, semi-socialist state planning, and anti-American xenophobia. There were little or no FDI flows within the region, and

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protective import-substitution policies discouraged the inflows of *extra-regional* FDI. This failed to promote competition and to generate foreign reserves necessary to import new technology and capital goods. The locomotives of AFTA (the ASEAN-5, comprising Thailand, Malaysia, Indonesia, the Philippines, and Singapore) have practised a form of neomercantilism and have been "friendly" rivals in trade and FDI, *and they all practise managed trade policies.* The state assumed the leadership of national development, while the market followed state directives and guidance. National interests and security concerns still drive ASEAN. The recent water access question between Malaysia and Singapore, the border clashes between Thailand and Myanmar, and the burning down of the Thai Embassy by Cambodians can define the shape and form of future ASEAN solidarity.

Although investment and trade restrictions still abound, the ASEAN-5 have practised outward-looking *export promoting but protective*[21] policies, principally targetting markets *outside* the region. Mari Pangestu is emphatic on this point: Indonesia's interest in AFTA is to gain experience before it can compete in the single global market and the aim of AFTA, as Indonesia sees it, is to increase the competitiveness of the regional economy in the world market.[22] ASEAN markets are open, but regulated, and the state can close them at will. They are fragile market economies with little or no civil society foundations and tradition to resist the state. The latecomers of ASEAN (Vietnam, Cambodia, Laos, and Myanmar) are still closed, albeit in transitional command and control economies, forming the outer four. The sultanistic economy of Brunei has created a quasi-extraregional political insularity for the kingdom. Furthermore, intra-ASEAN trade has remained flat for the past thirty years and offers little or no prospects for further expansion. As long as managed trade practices are followed, the intra-ASEAN imports and exports will remain small. Japanese analysts consider the success of AFTA "not rosy", while regional academics, journalists, and politicians cling on to bullish to cautious optimism. In the summer of 2001, when Malaysia announced a delay in the liberalization of its auto and parts market before 2003, Thailand quickly retaliated and demanded financial compensation.[23]

The Southern Cone countries embraced neoliberalism soon after the debt crisis-provoked "lost decade" of the 1980s. However, the reforms have been carried out either too hastily or incompletely. Argentina is one case in point. Venezuela is another. They all suffer from chronic crises except Chile. In Southeast Asia, authoritarian regimes were so successful in generating wealth and so agile in manipulating political opposition that there was no internal pressure to change. Between 1979 and 1999, the most expansive two decades, Singapore's

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GDP expanded a stunning 9 times, Malaysia's 3.7 times, and Thailand's 4.6 times (Table 1). Both long-term foreign investors and short-term speculators were bullish on the future prospects of the Southeast Asian economy.[24]

Political differences have not diminished: the ASEAN-10 have three transitional ex-communist political economies, one old-fashioned military junta, one sultanistic principality, and five democracies that allow varying degrees of tolerance to opposition — all pursuing managed trade for different and even conflictive political objectives at home. In brief, the free trade within ASEAN is hard to achieve without diluting the current political economy model. The MERCOSUR countries are recently rebuilt democracies with full media and academic freedom. Political opposition is also allowed to compete in elections without restrictions. Such unbridled freedom throughout Southeast Asia is still forthcoming. Neither do the region's leaders desire it, nor can free-for-all elections help retain the harmony and stability of the multicultural and multiethnic region.

Despite the "lost decade" of shrinking economies throughout the continent, the economic expansion of the MERCOSUR countries during the 1990s was remarkable.[25] Initially, it was clear that the depth of neoliberal reforms aided the economic expansion. Argentina, the most open and liberal political economy of MERCOSUR, registered a stunning 400 per cent increase of its domestic economy, while Brazil, once open but compared to Argentina, still *a dirigiste* economy, gained 330 per

TABLE 1
GDP (Current $ Price) of ASEAN-10, 1979–99
(In US$ millions)

	1979	*1989*	*1999*
Brunei	2,804	2,997	
Cambodia	n.a.	1,075	3,117
Indonesia	55,123	101,455	142,511
Lao PDR	n.a.	714	1,432
Malaysia	21,603	38,849	79,039
Myanmar	n.a.	n.a.	n.a
Philippines	27,419	42,647	76,559
Singapore	9,438	29,837	84,949
Thailand	27,372	72,251	124,369
Vietnam	n.a.	6,293	28,682

SOURCE: World Bank, *2001 World Development Indicators* (Washington, DC: The World Bank, 2001).

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cent, Paraguay 230 per cent, and Uruguay 290 per cent (Table 2). The growth rates of the Southern Cone countries were impressive but lower than that of the Southeast Asian countries. The external debt crisis of the 1980s deflated the Southern Cone economies and, since the early 1990s, Argentina and Brazil have been "shrinking the state" by adopting neoliberal measures, such as the privatization of state-owned enterprises (SOEs), the liberalization of trade and finance, and the deregulation of domestic markets.[26]

Both ASEAN and MERCOSUR have attracted huge amounts of FDI, compared with other developing regions. In the 1990s, Brazil in MERCOSUR, and Malaysia and Singapore in ASEAN were among the top five recipients of FDI in the world's emerging market countries.[27] Because of the bad debt history, Latin America in the 1990s was resorting to privatization to attract FDI, while Asia deregulated the domestic market and liberalized its financial system to borrow more, in addition to attracting FDI with a blend of neoliberal measures for certain sectors of the economy. In Latin America, FDI went into buying majority or minority shares in privatized firms. The Central Bank of Brazil reported in 1995 that of the 6,322 firms which received US$43 billion in FDI, the foreigners held the majority control in 4,902 firms.[28] In Southeast Asia, FDI came with a "turn-key" system of multinationals establishing offshore production platforms throughout the region. In 1996, the Asian countries attracted US$17.2 billion in FDI, while borrowing US$80.1 billion from commercial banks. In 1998, the second year of the crisis, only US$5 billion entered Asia as FDI, while US$60 billion *left* as divestment, disinvestment, and other forms of capital migrations, especially from Indonesia, grievously setting off the global contagion.[29] This caused the reduction of production capacities and the shrinkage of export potential.

TABLE 2
GDPs of MERCOSUR, 1979–99
(In US$ millions)

	1979	*1989*	*1999*
Argentina	69,252	76,637	283,166
Brazil	224,969	448,763	751,505
Paraguay	3,417	4,363	7,741
Uruguay	7,161	8,657	20,805

SOURCE: World Bank, *2001 World Development Indicators* (Washington, DC: The World Bank, 2001).

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The Asian financial crisis of 1997–98 jolted East Asia into re-examining its political economy model — industrial policy, a slew of state subsidies to the chosen few, conflicting financial and monetary regimes, and more importantly, the historic policy of managed trade. Singapore has repositioned itself to forge extra-ASEAN trade and investment linkages (with New Zealand, the United States, Japan, Australia, Chile, and the European Union),[30] while Malaysia and Thailand have sought to accelerate the consolidation of intra-regional AFTA by 2003 from the original 2005. The linchpin of the region, Indonesia, is in the throes of either becoming the world's largest Islamic democracy or being taken over by the alliance of home-grown and extra-regional Islamic radicals. Fortunately, the robust U.S. domestic economy and the EU on the mend were able to absorb more of ASEAN exports, thus fuelling a remarkably quick recovery. That was in 1999 and 2000. This had the effect of discouraging the region from a critical review of the model. In fact, Lee Kuan Yew correctly maintained that the recovery came too soon to implement deep structural reforms throughout the region.[31] The reprise of 1999–2000 is not likely.

"If the model works, why tinker with it?" has been the dominant sentiment. There is a growing consensus among the regional governments, business leaders, and academics that there was nothing wrong with the Asian model, and the crisis was the work of Western speculators and compounded by the International Monetary Fund (IMF) and Washington's misguided policies. American and Japanese critics of the IMF argued that the Fund had administered a wrong medicine, thus making the crisis worse. Horst Köhler, IMF Managing Director, readily admitted that the Fund had made mistakes, often "overextend[ing] our expertise".[32] The reluctance of the Bill Clinton Administration to rescue Asia was severely criticized. Joseph Stiglitz claimed that the IMF's "one size fits all" remedies created political and social turmoil in Indonesia, and possibly in Thailand. Koreans selectively implemented the IMF recommendations, never in entirety, and therefore succeeded in recovery. Some even accused the Koreans of "milking the IMF".[33] Stiglitz even questioned the professional competence of IMF economists. At least two prominent current and former IMF officials publicly chided the Nobel Prize-winning economist and a former Vice President-Chief Economist of the World Bank for the unfair remark.[34] That Koreans did not listen to IMF economists uncritically has served the country's recovery well.[35] And that Malaysia flatly refused to take the IMF medicine has been applauded by such Western academics as Paul Krugman as well as Stiglitz.[36]

However, Malaysia and Korea can face a deeper crisis for the next round of economic downturn because they have been able to avoid

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painful remodelling of their corporations, which have resisted strenuously but have taken quick advantage of the strong external demands. The effortless recovery that came in 1999 and 2000 severely diluted Kim Dae Jung's corporate restructuring agenda. Mahathir's capital controls policy has also been vindicated. Given the state-banking relationships that were peculiar to each country, and profoundly political and even ethnocultural, the corporate reforms in Korea and Malaysia have been less than sound to withstand another crisis, but are probably better than those in Thailand and Indonesia.[37] The non-performing bank loans of Malaysia have reached the ratio of 60 per cent of its GDP — the highest in Asia — while the *chaebols* (large conglomerates) have been successful in blocking the structural reforms that Kim Dae Jung pushed[38] (Table 3). Singapore was the bright spot in the region and least affected by the crisis, but the economic performance turned south beginning in the second quarter of 2001.

After 11 September, Asia as a whole, and Southeast Asia in particular, have been retrenching. Economists and business pundits believed that the world economy for 2002 would be depressed.[39] Now with the quickening pace of George Bush's war in Iraq, the prospect for global economic expansion for 2003–04 looks dimmer. The Common Effective Preferential Tariff will bring down the current 0–5 per cent tariffs to zero across the board. This will help the expansion of intra-regional trade. However, small outer members depend on customs duties for governmental operations. In 1996, Cambodia counted 64.9 per cent of its revenues from import and export taxes. It will be difficult for Cambodia and others to give up a big chunk of revenues for the sake of free trade.[40] If this were the case, the chances for the expansion of AFTA would be further hampered, because the intra-regional trade boom in the past had depended on the expansion of the extra-regional trade with the United States (21 per cent), the EU (15 per cent), and Japan (12 per cent), together importing almost half of ASEAN's total exports.[41] Given these economic dynamics, plus increasing political regime risks in the two regions (Argentina and Indonesia at the moment), the prospects for the success of regional market banking on intra-regional trade expansion looks dim. Indonesia has been on its knees

TABLE 3
Non-performing Bank Loans in Asia as Percentage of GDP, 2002

Malaysia	*China*	*Thailand*	*Taiwan*	*Japan*	*Indonesia*	*Korea*	*Philippines*	*India*
60%	50%	47%	38%	38%	27%	27%	25%	10%

SOURCE: *Asian Wall Street Journal*, 9 July 2002.

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since the collapse of the Soeharto regime in mid-1998, while the generalized corruption and excessive greed among elected parliamentarians and appointed politicians have stymied even meagre reform efforts. The similar obstructionism in Argentina has bogged down the IMF to conclude a long-term economic recovery plan with Buenos Aires. In January 2003, the Fund and the government of Argentina reached a preliminary agreement to roll over the current debt. As much as US$6 billion of fresh money would be extended to Argentina.[42]

When small and medium-sized neomercantilist economies built on industrial policy and managed trade practices band together to create a free trade union, whether it is *closed* or *open* regionalism, not only does the success depend on the strength of the domestic economies, but also on the degree of the existing and future *external* economic, commercial, and financial linkages with neoliberal markets that each member of the union brings to the table. In the semi-neoliberal MERCOSUR, such global linkages outweigh the intra-regional ties, while in the neomercantilist ASEAN, the extra-regional trade relations have been mitigated by security concerns and balancing acts premised on the rivalry between the regional and global superpowers, such as Japan, China, the United States, and potentially, Russia. Moreover, in the case of MERCOSUR, the Latin xenophobia for the "return of dependency" has impeded a fuller growth and expansion.

In the ASEAN case, the colonial legacy combined with anti-West (read anti-U.S.) feelings among the Islamic members and Thailand in particular after 1997, has created chronic conflicts, although more than a full third of the regional trade is with the United States and the EU. It is not all clear, however, that the region as a whole wants monopsony trade and financial relations either with China or Japan. ASEAN has deliberately chosen to nurture two different and fundamentally conflictive political economies — the inner five, plus Brunei, and outer four. ASEAN's advanced economies, such as Singapore, Malaysia, the Philippines, and Thailand do not seem willing to reduce their trade and financial dependency on the West, in spite of their politicians' anti-Western rhetoric. Two days after the February 2002 World Economic Forum in New York, the then most anti-U.S. and anti-globalization country of the region, Malaysia held an "Invest in Malaysia Summit" conference in New York, which was presided over by none other than Mahathir, the Muslim world's secular anti-globalization gadfly. The Prime Minister was playing a different tune: his country welcomes all forms of FDI and American investors should not confuse Malaysia with a country with Islamic fundamentalism.[43] Malaysia has been the region's champion beneficiary of FDI.

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TABLE 4
Foreign Direct Investment to ASEAN and MERCOSUR, 1979–99
(In US$ millions)

	1979	*1989*	*1999*
Argentina	206	1,028	23,929
Brazil	2,419	1,267	32,659
Brunei	n.a.	n.a.	n.a.
Cambodia	0	0	126
Lao DPR	0	4	79
Malaysia	574	1,668	1,553
Myanmar	0	8	216
Philippines	7	563	573
Singapore	836	2,887	6,984
Thailand	55	1,776	6,213
Vietnam	0	4	1,609
Uruguay	216	0	229
Paraguay	50	13	72

SOURCE: World Bank, *World Development Indicators 2001* (Washington, DC: The World Bank, 2001).

Unlike Brazil in MERCOSUR, Singapore has been denied unrestricted access to the domestic markets in Malaysia and elsewhere in ASEAN, when FDI from the city-state was seen as a threat to national security that could tarnish the political image of the ruling party as a sell-out. The Government of Singapore saw it, and still sees it differently. Malaysia accused the city-state of signing a series of bilateral free trade agreements (FTAs) outside the region and frets that this would provide access to the ASEAN market by Western non-members through the "back door".[44] Singapore was simply protecting itself, especially in the second half of the 1990s, as the Asian financial crisis taught everyone an important lesson: do not put all the eggs in one basket. Coupled with bitter rejections in the telecom bids in Hong Kong and Malaysia, it is fully justified for Singapore to search for ways to amplify its economic, trade, and financial ties outside ASEAN, as long as the city-state's FTA practices do not violate the AFTA rules. In fact, Singapore's High Commissioner to Malaysia, K. Kesavapany, adroitly argued that Singapore's FTA ties could lead to greater flows of capital and goods to ASEAN as a whole.[45] What bothers Malaysia is that Singapore can become the keeper of any door to AFTA, whether it is trade or investment.

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The Asian "tigers" (Korea, Taiwan, Hong Kong, and Singapore) in the early 1980s played a crucial role in improving the image of Asia as a lucrative investment spot.[46] The spillover effect of the four to Southeast Asia cannot be denied. They invested lavishly in the region to set up offshore production platforms, to extract non-renewable natural resources, and to tap into growing middle-class markets. Multinationals from Europe and the United States soon followed. Lee Kuan Yew made another salient point: the political stability in Southeast Asia at the end of the war in Indochina, thanks to Soeharto's three decades plus rule in Indonesia, gave an additional boost to the trade expansion, attracted more FDI, and forged economic ties with the United States, Japan, and Europe.[47] This virtuous cycle was broken in 1997–98. Since then, ASEAN has been hardpressed to rebuild it. The lack of coherent security policy for the group after 11 September is not helping the region to pull out of the current doldrums. For 2003, Singapore, ASEAN's most advanced economy, is expecting 11 per cent less in FDI compared with the year before: from S$11.09 billion in 2002 to S$9.9 billion for 2003.[48] Lesser economies could do worse.

It is highly unlikely that a U.S. or Japanese firm would use Singapore as the "backdoor" to AFTA, because investment in the ASEAN countries has never been restricted. What really becomes an issue is that Singapore can emerge as the most-favoured destination of FDI, because of its headstart in FTAs with extra-regional economies, a high living standard and easy access to the world's major markets. Critics have forgotten that at the moment, Southeast Asia is more important to investors as a production platform for exports. The fact that Singapore has launched the effort of building extra-ASEAN ties even before the advent of AFTA has bothered some ASEAN members, especially Malaysia. Now Singapore is negotiating a trilateral FTA with Chile and New Zealand. The EU will look favourably at a similar arrangement, now that the U.S.–Singapore FTA has been finalized at the end of 2002.[49]

The undertow of the political, historical, and cultural cleavages in the region proved to be stronger than imagined, when Mahathir blocked the merger of SingTel and Time dot Com of Malaysia.[50] The reluctance to accept Singapore's FDI was not restricted to ASEAN. The Hong Kong authorities aborted SingTel's attempt to buy Cable and Wire in China's Special Administrative Region, presumably at the behest of Beijing.[51] However, the result of Singapore's excursion into Australasia has been successful. SingTel's Australian Optus lost money in 2001, but its US$9 billion deal is considered a viable project over time. SingTel is Asia's largest telecom operator outside China and Japan, boasting subsidiaries in Thailand, the Philippines, India, Indonesia, and

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Australia.[52] Singapore has also been successful in investing in the EU and NAFTA, especially in the United States.

When an important ASEAN member such as the city-state could have been the major source of FDI for the region and has experienced undue difficulty in expanding within the region, it is logical for Singapore to gaze outward. As its economic speciality further shifts to the service sector, Singapore will have to look at extra-ASEAN opportunities more seriously. The Bali bombing in October 2002 has also galvanized Australia to take a firmer stand against global terrorism in the Asia-Pacific, while Singapore's investment "down under" can drive the city-state to modify its security strategy within ASEAN and even synchronize its anti-terrorist policies with the republic's major trading and financial partners in the Asia-Pacific, America, and Europe. Were this to occur, the structure and performance of ASEAN and its AFTA will not be what the founders had intended. Singapore's alienation from ASEAN/AFTA's Muslim states will become more severe, as its post-11 September security policy takes firmer hold.[53]

MERCOSUR has nurtured a "SAFTA" (South American Free Trade Agreement) dream in which Brazil represents 71 per cent of the region's economy and hence behaves like the behemoth, gets what it wants, and carries the day. In the case of NAFTA, the United States is both the source of FDI and the market of preference for Canada and Mexico, which are the first and second largest trading partners to the United States. Brazil has been developing a similar position within MERCOSUR, albeit on a smaller scale. Brasília has been using its leverage to push a SAFTA and later expanding it to its Latin cousins in North and Central America.[54] Brazil wants to build the Latin trading bloc in the Western Hemisphere to moderate and even contest U.S. influence and power. However, the election of Luiz Inácio Lula da Silva as President now throws sand into the gear. By upbringing, Lula, a union man, is against free trade, unrestricted flow of FDI, and shows a slight hint of surrendering national sovereignty. The "backdoor" ascension of Chile to NAFTA (now that Chile has FTAs with the United States, Canada, and Mexico) further throws a damper on the Brazilian dream of building a South Atlantic economic and political counterforce.[55] Minor members, such as Uruguay and Paraguay — whose combined economies are smaller than that of the single city of São Paulo, or of Buenos Aires — have built up deep resentment against their giant neighbours and desired extra-regional trade and investment linkages when and where possible to counterbalance the oversized *vecinos*.

MERCOSUR will not forge ahead with fuller integration, as long as Brazil insists on exercising its monopoly of decision-making, and as long as the Argentine recovery is too feeble to restore its economic

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health soon.[56] The ASEAN integration will be impeded by the Association's laggards and intercultural clashes among the members. A potential divide driven by the members' divergent post-11 September security objectives will further stymie the group. More critically, the homeostasis of intra-ASEAN trade during the recovery phase will give the members a pause and intensify the expansion of extra-regional linkages with neoliberal markets. In late June 2002, the Prime Minister of Malaysia announced that he would retire. The retirement of Mahathir after twenty-two years in power will severely affect the fortunes of ASEAN when the last of the three patrons of regionalism leaves the stage by October 2003.[57] The retirement of the Muslim world's most secular leader will upset the Muslim and non-Muslim power balance in Southeast Asia. With Mahathir and Soeharto remaining inactive, one-half of Southeast Asians (the Muslims) has lost the most effective advocates for their interests and cause. This, combined with the post-11 September security measures, can hamper the region's trade and financial expansion, if not throw the region itself into convulsion.

ASEAN and MERCOSUR in the Wind

In August 2001, no one cared or dared to condemn the constitutional coup in Indonesia by an anti-Wahid cabal of ambitious legislators, contentious commanders of the armed forces, and contumacious chiefs of the national police. Sticking to the "ASEAN Way" verbiage, none criticized the Constituent Assembly's indiscretion. Through the decades, the government in Jakarta had sponsored the "transmigration" to the Outer Islands of Muslim peasants, merchants, civil servants, police and military units who are still seen as usurpers and even internal colonial overlords.[58] This simmering anti-Jakarta and anti-Javanese resistance throughout the sprawling archipelagic republic imploded after the fall of Soeharto. Abdurrahman Wahid and his men were inept in dealing with the snowballing breakaway movements in the Outer Islands, slow in stamping out corruption, and unable to stabilize the crumbling economy. Ambitious politicians and disgruntled generals decided that Wahid had to go.

It may not be an exaggeration to argue that the future viability of AFTA hangs on the outcome of Indonesia's struggles to restore economic stability and political sanity to the country of 225 million citizens (representing nearly half of ASEAN's 500 million denizens) and the region's largest economy (US$153 billion GDP in 2000). The continued instability of Indonesia can have a negative effect on the political peace and economic growth of all ASEAN countries. AFTA without a viable Indonesia will turn Southeast Asian regionalism into a paper tiger. The

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economic integration of the region will be severely hampered. While ASEAN has increased its share of the world exports from 2.3 per cent in 1970 to 6.5 per cent by 2000 (Table 5), MERCOSUR's global share of exports has remained constant. In fact, it has declined from 1.7 per cent in 1970 to 1.3 per cent in 2000. ASEAN is an outward-looking, open regionalism, and a group of managed traders which heavily relies on outside markets for growth. MERCOSUR is an external tariff union and a closed regionalism. It has not been aggressively pursuing trade expansion with non-MERCOSUR countries. Its dance of merger with the EU has not advanced far. It is more of a political imperative than economic, an effective reminder to the United States that the South Atlantic cannot be ignored. The Southern Cone market continues with its mostly open managed trade policies with outsiders, while ASEAN has become less than enthusiastic in embracing neoliberal trade practices. The consensus in the two regions is that the old developmental model needs fixing, but no one has produced an alternative model.[59]

A union of neomercantilist managed traders has an inherent drawback on building their growth solely based on intra-regional trade *but without* investment within the region. Historical mercantilism and today's neomercantilism in principle are devoted to the accumulation of surplus from trade, which in turn builds a nation's wealth. The wealth will help to strengthen the military power and national security necessary to defend its sovereignty at home as well as advance its economic and political interests abroad.[60] A good (neo)mercantilist state would practise import repression to generate a surplus. As no one would want to lose, it becomes inevitable to seek out neoliberal markets for trade surplus. Lester Thurow at the Massachusetts Institute of Technology (MIT) traced as much as 40 per cent of Korea's GDP growth and nearly 75 per cent of Taiwan's to their unrestricted access in the

TABLE 5
Percentage of ASEAN-10 & MERCOSUR in World Exports, 1970–99

	1970	*1980*	*1990*	*1996*	*1997*	*1999*
EU	45.6%	41.0%	44.0%	39.2%	38.0%	38.9%
NAFTA	21.7%	16.6%	16.2%	17.4%	18.4%	18.8%
ASEAN	2.3%	3.9%	4.3%	6.4%	6.5%	6.5%
MERCOSUR	1.7%	1.6%	1.4%	1.4%	1.5%	1.6%

SOURCE: World Bank, *World Development Indicators 2001* (Washington: The World Bank, 2001), Table 6.5, Regional Trade Blocs, p. 334.

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U.S. market.[61] These two Asian neomercantilist political economies owe their success to the U.S. open neoliberalism.

ASEAN and MERCOSUR have also depended on FDI from neoliberal economies. In 1991, the entire world's FDI was at US$159 billion. Five years later, the amount ballooned to US$350 billion, and in 2000 it surpassed a staggering US$1.3 trillion.[62] When neomercantilist Japan and Korea invest in Southeast Asia, their multinational corporations (MNCs) are no less concerned with profits and no more preoccupied with contributing to the consolidation of the Southeast Asian state power. Globalization has required all MNCs, whether the home countries are neoliberal or neomercantilist, to converge on the singular objective: domination of the global marketplace to extract profits and raw materials. MNCs are neoliberal. The ethics of good corporate citizenship are emerging, but have a way to go before they can be relied upon by the host countries as a dependable part of their own growth and development strategies. At present, free trade thrives within regionalism, but managed trade guides the relations between regional markets. Over time, it makes more sense to build a free trade and investment agreement between neoliberal and neomercantilist countries.

AFTA and MERCOSUR have served political purposes, but the trade and investment strategies so far have not led to the much touted economic integration across borders. Coincidentally, the inability to expand its intra-regional trade beyond the level of 1970 in the case of ASEAN, and that of 1995 in the case of MERCOSUR, has limited the potential to emerge as global political and economic blocs, hence ASEAN Plus Three and SAFTA. This is the case where political convenience is driving the economic exigencies. Political alliance built on closer economic ties is more enduring than political needs leading to a series of economic concessions. Once political change occurs, the rapture of the economic ties will follow. The inability for intra-regional commercial activities to grow beyond the historical threshold and the inability of intra-regional investment to expand can be accounted for by the members' persistent neomercantilist policies, managed trade norms, and other policies driven by incipient ethno-cultural considerations. Thus far, global flows of extra-regional FDI and FPI have proven to be cyclical, volatile, and undependable.

The level of intra-regional trade, or an index for the integration of a new political economy for ASEAN and MERCOSUR, has remained low and static (Table 6). For the past three decades, MERCOSUR's share has doubled, as neoliberalism removed the old barriers. ASEAN's portion has remained constant. The fact that each of the regional markets has maintained a high rate of extra-regional trade activities, particularly

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with the United States, the EU, and Japan, has impeded trade creation and diversion within each region. Much of the trade surplus in ASEAN has come from outside the region. The structural similarities of the export sectors of all members have also prevented vigorous intra-regional trade creation. Sixty-four per cent of Singapore's exports and more than half of Malaysia's exports are in electronics, computer chips, and components often produced by the same multinationals, thus preventing the two-way exchanges of each other's major exports that are similar, and even the same. Such products as automobiles, auto parts, beef, orange, sugar, coffee, and timber have dominated the trade of the Southern Cone common market, also impeding the intensification of regionalism.

To a varying degree, all Asia practises neomercantilism. The trade with Japan and Korea has resulted in deficits for the ASEAN members. It has been the trade surplus that ASEAN has generated with neoliberal countries, especially the United States that has paid for the intra-Asian trade deficits.[63] The global trade and investment flows among various political economies have been the foundations for ASEAN and MERCOSUR growth for the past decades, not intra-regional trade and investment. Furthermore, new restrictions and preferences can arise from AFTA and MERCOSUR as security issues after 11 September divide the trading partners, and this in turn could alter the current pattern. Moreover, inflexible neomercantilist political economies could be the losers because the current globalization and world economy are overwhelmingly driven by neoliberal countries.

Forty per cent of the total imports into the United States can be accounted for by overseas subsidiaries of U.S. companies and U.S.-based foreign MNCs, while 26 per cent of the U.S. exports represented the trade between American MNC parents and their overseas affiliates.[64] The combined imports by American MNCs and foreign MNCs in America exceed three-quarters of the country's annual imports. Similar patterns prevail in Japan and the European Union. Singapore and Penang are the superb examples that benefit from the masterly blending of neoliberalism surrounded by the sea of neomercantilism. Neoliberal enclaves or pockets

TABLE 6
Intra-Regional Market Exports as Percentage of Total Exports, 1970–99

	1970	*1985*	*1990*	*1995*	*1999*
MERCOSUR	9.4%	5.5%	8.9%	20.3%	20.5%
ASEAN	22.9%	19.8%	19.8%	25.4%	22.2%

SOURCE: World Bank, *World Development Indicators 2001*, Table. 6.5, p. 333.

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can be established within the territory of neomercantilism, while they can offer MNCs easy access to competitive inputs or neoliberal trade and investment practices. The direct investment by MNCs in Southeast Asia, and, in particular, in Singapore, Malaysia, and Thailand has been on the rise throughout the first half of the 1990s and much of the MNCs' exports went to the United States, the European Union, and Japan — the parent countries.[65] How long such acrobatics of blending neoliberalism and neomercantilism can be maintained remains to be seen. In MERCOSUR, no extensive and imaginative mixing of the two international political economy systems took place, as in ASEAN.[66]

In AFTA and MERCOSUR with multiple currencies and different exchange rates in place, the MNC-driven trade expansion has increased the total volume of extra-regional exports by taking advantage of the differentials. Often, the host countries devalued their currencies to maintain the competitiveness. Both regions are still in the mode of attracting FDI from the world's developed economies, or well-to-do non-members for their growth and development. To successfully do so, the political economies will have to become more neoliberal as a whole, sensitive to the volatile demands of global neoliberalism. In either way, ASEAN, the club of managed traders, will need to be remodelled if further trade and investment expansion were to take place. The irony is that corporations from neomercantilist Japan and Korea still prefer to invest in neoliberal enclaves of Southeast Asia. Through the years, ambitious domestic firms have joined the multinationals in microprocessor production by importing the latest technology. Together, MNCs and domestic firms have over-expanded their capacity of producing such similar goods as microchips, electronics, auto parts, seafood, and agricultural products. Malaysia currently produces 54 per cent of the world's microprocessors, effectively becoming the largest maker of IT chips.[67] Much of the production takes place in one city, Penang. All the five original members, or the core of ASEAN, for the first time since the 1997–98 financial crisis, suffered the decline in economic output. What worries the regional government and business leaders is that the most dynamic economies of the five — Singapore and Malaysia — have experienced the biggest decline (Table 7). The overseas market-dependent neomercantilist countries have become vulnerable to externalities.

MERCOSUR: "The World's Third Largest Free Trade Area"[68] (for Now)

The military authoritarian regimes in the Southern Cone established an elaborate network of intelligence and counter-intelligence to monitor

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TABLE 7
Impact of the Global Economic Slowdown on the ASEAN-5 and the Heavy Dependence on Electronics as the Driver of the Region's Exports, 2001 (1st Quarter)

	% Change in GDP (between 2000 4thQ & 2001 1stQ)	*Exports as % of GDP*	*Electronics as % of Exports*
Indonesia	–1.2%	38.5%	14.6%
Malaysia	–3.1%	125.4%	58.8%
Philippines	–1.3%	56.3%	59.3%
Singapore	–6.5%	179.9%	64.2%
Thailand	–1.4%	66.4%	33.3%

SOURCE: *Far Eastern Economic Review*, 26 July 2001, p. 49.

and track down each other's political opponents and subversives.[69] When the military retreated to the barracks in the mid-1980s and early 1990s, the elected civilian governments sought ways to institutionalize the hard-earned democracy by building new relationships on the top of the military-era network. Elected governments did not close down the security services. The military era inter-state security collaboration did reduce the historical animosities among the Southern Cone countries and proved to be useful in building a bridge of co-operation. Democratic governments chose to forge a common market, similar to the then European Economic Community. Driven by the hype of "Europe '92" and the prospect of a nascent NAFTA, the civilian presidents of Argentina, Brazil, Uruguay, and Paraguay in 1991 met in Asunción to sign a treaty which would allow the creation of a single integrated free trade bloc with common external tariffs in five years. The treaty committed the four signatories to establish a common market council, a common market group, *ad hoc* council of Brasília, an administrative bureau, and a joint parliamentary commission — all institutions necessary to deepen the union. The region offered then US$800 billion in combined output and 200 million consumers.[70] The desire to become more independent of the United States was also an important driving factor for Brazil. MERCOSUR, like the EU, is a *closed* regionalism that speaks with a single voice on tariff issues, but unlike the EU, it lacks the

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unitary standard for defence, foreign policy, and many domestic public policies. It is the first club of democracies of Latin America in history. It was the political exigency that led to the creation of the regional market *cum* common external tariff union.

Once the common market was in place by 1995, intra-MERCOSUR trade took off (Table 6). Well ahead of schedule, all four countries removed trade barriers, opening their markets to each other. Thus, the trade repression of the import-substituting industrialization era was dismantled, as neoliberal reforms advanced. The four countries enjoyed each other's products, now allowed to enter without restrictions. Brazil and Argentina dominated the regional market from the outset. Each has invested in the other in order to optimize production and cost-saving in market access. In 1991, Argentina firmly anchored its peso on the U.S. dollar by the currency board, and the dollar was allowed to circulate freely as the second currency. Brazil introduced the *real* plan — a new currency, an austerity budget, and accelerated structural reforms. Within a year, Brazil's economy was stabilized with inflation at less than 5 per cent per year. MERCOSUR could not have been timed better for its debut.

When FDI Becomes a Substitute for Trade

Because of the differences in the costs of factors of production as well as choices in such investment strategies as greenfield projects, as opposed to mergers or acquisitions of existing businesses, the regional markets of the world were competing with each other to attract more foreign direct investment. At the same time, to keep investment capital from fleeing home, nation-states continuously reformed their economies with neoliberal measures. Both ASEAN and MERCOSUR have been beneficiaries of globalization which has transferred a huge portion of global savings, FDI and FPI (foreign portfolio investment) to these two regional markets. In 1999, the world's developing countries received US$209 billion in FDI, of which US$93 billion, or 44.5 per cent of the total, went to the ASEAN countries. Latin America received US$90 billion, or 43 per cent, leaving US$23 billion, or 12.5 per cent for the rest of the developing world to share.[71]

Seventy per cent of all FDI was used for cross-border mergers and acquisitions worldwide, but in the developing (neomercantilist) countries, less than 3 per cent of all FDI was for mergers and acquisitions. This is understandable: the Asian mercantilist states preferred "turn-key" FDI projects of multinationals to excessive external borrowing and selling off domestic firms. Instead, the financial liberalization in the early 1990s allowed Asian corporations and banks to borrow heavily.

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The Asian state encouraged this, because it did not have to dip into domestic savings; rather, the Asian private sector was able to tap into the enormous external savings in Japan, the United States, and the EU. The Latin American states borrowed heavily in the 1970s, declared debt moratoria in the 1980s, and by the 1990s, combined external borrowing with attracting FDI by privatization.

A successful blending of neoliberalism and neomercantilism in Asia and, to a lesser extent, Latin America has modified their developmental strategies since the early 1990s. Latin America was bullish on the new region, while Asia was skeptical, but this new unrefined developmental model led to the weakening of the domestic market's competitiveness while casting doubts on the neoliberal experiment. In Argentina, this resulted in the collapse of the Fernando de la Rúa government at the end of 2001. The slow and cautious approach in Asia has led to different results. The selling of defunct banks and non-financial firms to foreign investors in Japan, Korea, Indonesia, and Thailand has altered the traditional role of the state, all of which are more neoliberal today than two decades ago. A similar transformation has taken place in Latin America.

To compete for global dollars and yen (now euros), the world's nation-states have crafted 1,982 laws governing FDI since 1999, while there was only 181 such laws in 1980. In the 1990s alone, 94 per cent of the current 1,034 FDI laws were adopted.[72] In order to become more agile and competitive, countries of the world outbid each other by making conditions for FDI more hospitable and friendly, in brief establishing neoliberal environments and enclaves of production. Regional markets are increasingly adopting such laws, instead of nation-states. MERCOSUR is far more advanced in such measures than ASEAN, since the Latins lack the decorum of the "ASEAN Way" in conducting interstate business and are less sensitive to sovereignty issues than Asians.

Conclusion

Both ASEAN and MERCOSUR have been superb players in globalization games and have been the most successful beneficiaries. An interesting pattern has emerged: that neoliberal countries have invested in neomercantilist countries as the former's competitive and comparative advantages in trade eroded in relation to the latter. It is the overseas revenues and profits that balance the trade deficits against neo-mercantilist economies. In this sense, FDI is a substitute for trade. For the neomercantilist economies to generate trade surplus, their markets

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must remain open for investors from neoliberal countries. For the global economy to expand, neomercantilists must continue to export, while neoliberals have to expand cross-border FDI. Trade without investment, like governance without government, cannot thrive.

In MERCOSUR, the current political instability and economic mess of Argentina and the increasingly vocal leftwing demand for the redistribution of wealth and the restoration of social justice in Brazil will divert energy from the further consolidation of the regional market. Whoever wins in the April 2003 presidential election in Argentina will face the Herculean task of re-igniting economic growth and regaining the confidence of international investors. Brazilian President Lula must invent a balancing act of satisfying the defiant left and mollifying the truculent right concurrently. Under the circumstances, the Brazilian President will need to worry more about his own allies than enemies and this will leave him no time for the SAFTA project. In Southeast Asia, the security issues will take a front seat again by converging with the new post-11 September terrorism concerns. The heightened suppression and arrest of violence-prone Islamic militant groups in Singapore, Malaysia, Indonesia, and the Philippines in 2001 and 2002 are redefining the internal security exigencies and will drive the economic agenda. Political isolationism, rising anti-Americanism (also anti-globalization in Malaysia and Indonesia), and insurgent Islamic fundamentalism are a highly inflammable mix that continues to divide ASEAN. And here lies the rub: little prospect for intra-regional trade expansion in the club of managed traders and greater differences in how to deal with Islamic radicals that have increasingly threatened the Asian state. The unfolding political confrontation between the Megawati government and indigenous Islamic militants and allies of al-Qaeda in Indonesia, the growing pains of Malaysian democracy, the consolidation of Singapore as a global service economy, and the transitional economies of Indochina, Myanmar, and East Timor, will all interfere with the full blossoming of AFTA. The transitional economies and newly independent state can hardly resist the allure of managed trade, regulated market, and restricted financial system — the proven path of success that the older ASEAN siblings had walked. However, this model will not work in the post-11 September world economy. The members will diverge from the common regional interests so carefully nurtured by Soeharto, Lee Kuan Yew, and Mahathir for over three decades. Without the authoritarian trio of the region, the old political agenda of ASEAN cannot be sustained. That will, in turn, make it more difficult, if not impossible to secure trade and investment as the integrative tools of Southeast Asian regionalism.

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NOTES

1. In fact, the fragility and difficulty of managing ASEAN harmony have been raised before 11 September. Lee Hsien Loong, Deputy Prime Minister and Chairman of the Monetary Authority of Singapore in November 2000, commented: "...continuing political and economic difficulties in South East Asia, plus the perceived weakness of ASEAN ... are strongly colouring the views of analysts and investors" (Speech given at the Bank of Thailand, Bangkok, 30 November 2000. "Lee Hsien Loong: ASEAN post-crisis–rebuilding confidence and prosperity," *BIS Review* (November 2000), www.bis.org.
2. "What Went Wrong?", Interview with Lee Kuan Yew, *Far Eastern Economic Review*, 12 December 2002, www.feer.com. Maria Ressa, "The quest for SE Asia's Islamic 'super' state", 30 August 2002, CNN.com/WORLD.
3. Economists interchangeably use the terms "regionalism", "regional trade agreement", "free trade agreement", and "preferential trade agreement", when they mean all types of economic, trade, and investment arrangements across borders. In this article, I will use the term, "regional market" meaning all economic, trade, and investment arrangements that involve three or more countries across their political borders. For a variety of terms, consult: Robert Z. Lawrence, *Regionalism, Multilateralism, and Deeper Integration* (Washington, DC: The Brookings Institution, 1996), pp. 1–9, 95–104; Jagdish Bhagawati and Arvind Panagariya, eds., *The Economics of Preferential Trade Agreements* (Washington, DC: AEI, 1996), pp. 1–5; and Edward D. Mansfield and Helen V. Milner, eds., *The Political Economy of Regionalism* (New York: Columbia University Press, 1997), pp. 1–19.
4. The four MERCOSUR countries have embraced neoliberalism to varying degrees. Argentina has gone far, to be called neoliberal, but the other three — Brazil, Uruguay and Paraguay — are still in the "transition" phase to neoliberal political economy. Brazil, the largest of the four, is still neomercantilist, with a series of neoliberal measures to attract foreign capital and technology. In view of the collapse of the neoliberal model in Argentina at the end of 2001, it is not likely that the other three will be pushing neoliberal reforms. If the U.S. economy slows down further, Washington will have lost the moral authority to champion neoliberalism and MERCOSUR will not be listening as attentively as before. Hence, throughout this article, MERCOSUR will be considered neoliberal. On a scale of 1 to 10 (ten being the most hardened neomercantilism), MERCOSUR should rank 4, and ASEAN 8.
5. Paraguay was already under military rule when Brazil's army took over power in 1964 by overthrowing the Goulart government; in Argentina and Uruguay, the military overthrew elected presidents in 1966 and set up dictatorships; and in Chile, the right-wing armed forces ended the rule of the Marxist presidency in 1973. The military retreated to the barracks in Argentina in 1983, in Uruguay in 1985, in Brazil in 1985, in Paraguay in 1988, and in Chile in 1990.
6. Included in the category of "overseas Chinese" are those in Taiwan. The total number comes close to 55 million, of whom 21 million live in Taiwan. For Southeast Asia, somewhere between 33 and 35 million Chinese call it their home. George T. Haley, Chin Tiong Tan and Usha C. V. Haley, *New Asian Emperors: The Overseas Chinese, Their Strategies and Competitive Advantages* (Woburn, MA: Butterworth-Heinemann, 1998), p. 13.
7. Simon S.C. Tay and Jesus Estanislao, "The Relevance of ASEAN: Crisis and Change", in *A New ASEAN in a New Millennium*, edited by Simon S.C. Tay, Jesus Estanislao, and Hadi Soesastro (Singapore and Jakarta: IIA & CSIS, 2000), pp. 18–19.
8. Jusuf Wanandi, "ASEAN's Past and the Challenges Ahead: Aspects of Politics and

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Security", in *A New ASEAN in a New Millennium*, edited by Simon S.C. Tay, Jesus Estanislao, and Hadi Soesastro, pp. 25–26.

9. Sekiguchi Sueo, "Introduction", in *Road to ASEAN-10: Japanese Perspectives on Economic Integration*, edited by Sekiguchi Sueo and Noda Makito (Singapore: Institute of Southeast Asian Studies, 2001), pp. 3–5.
10. Dato' Seri Dr Mahathir Mohamad, "Keynote address", *ASEAN at the Crossroads*, edited by Noordin Sopiee, Chew Lay See and Lim Siang Jin (Kuala Lumpur: Institute of Strategic and International Studies, 1987), pp. 1–4.
11. Lockwood Smith, "Staying Engaged with Asia" (Ministry of Foreign Affairs and Trade, Government of New Zealand, July 1998), pp. 19–20.
12. "Indonesia To Urge Creation of SE Asian Terror Task Force", *Wall Street Journal On Line* (16 January 2003), online.wsj.com.
13. "SE Asia Anti-Terror Drill Ends: Move To Set Up Committee", *Wall Street Journal On Line* (16 January 2003), online.wsj.com.
14. Barry Wain, "Southern Thailand Suffers From Violent Image of Past", *Wall Street Journal On Line* (24 December 2002), online.wsj.com.
15. "SE Asian Govts Not Cooperating In Terrorist Hunt: Expert", *Wall Street Journal On Line* (16 January 2003), online.wsj.com.
16. Betty Pan, *Sons of the Yellow Emperor: The Story of the Overseas Chinese* (London: Arrow Books, 2000), pp. 125–27.
17. Ibid., pp. 273–74.
18. Lee Kuan Yew, *From Third World to First: The Singapore Story: 1965–2000: Memoirs of Lee Kuan Yew* (Singapore: Times Editions, 2000), pp. 638–39, 642–43, 665.
19. ASEAN's share of the world trade was less than 7 per cent in 1999. World Bank, *World Development Indicators 2001* (Washington, DC: The World Bank, 2001), pp. 332–34.
20. Lee Kuan Yew accurately observed that the 32-year rule of Soeharto was the guarantee of regional political stability which allowed Indonesia's neighbours to grow. Foreign investment entered the region, export trade expanded, and coincidentally the archipelagos' closest neighbours, Singapore and Malaysia, have been the greatest beneficiaries of Soeharto's iron rule. Lee Kuan Yew, "East Asia's Status in the 21st Century" (Speech given at the Institute of Strategic and International Studies, Kuala Lumpur, Malaysia, 16 August 2000).
21. Jagdish Bhagwati, "Export-Promoting Protection: Endogenous Monopoly and Price Disparity", *Political Economy and International Economics: Jagdish Bhagwati*, edited by Douglas A. Irwin (Cambridge, MA: The MIT Press, 1996), pp. 110–15.
22. "An Indonesian View of AFTA", *ASEAN Update*, first published in the *Indonesian Quarterly* (1st Quarter, 1995), pp. 9–10.
23. For the trade dispute, see Eirmalasare Bani, "Bangkok wants KL to buy more rice as compensation", *Business Times* (Kuala Lumpur), 25 May 2001, p. 1; and "Malaysia, Thailand in talks over car parts tariff differences", *New Straits Times*, 2 July 2001, p. 23. For the optimism and pessimism for ASEAN, see Takano Takeshi, "The ASEAN-10 and Regional Political Relations", *Road to ASEAN-10*, pp. 16–36. Rolf L. Langhammer, "AFTA–A Step toward an Intensified Economic Integration?" *ASEAN: Future Economic and Political Cooperation*, edited by Wolfgang Moellers and Rohana Mahmood (Kuala Lumpur: ISIS, 1993), pp. 31–48, esp. 34. For one example of cautious optimism, see José L. Tongzon, *The Economies of Southeast Asia: The Growth and Development of ASEAN Economies* (Cheltenham, UK: Edward Elgar, 1998). For the Thai–Malaysian conflict over the Kuala Lumpur decision, see "Car tariff dispute talks from Feb. 5," *New Straits Times*, 26 January 2001.

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24. For a good overview of FDI in the region, consult Nomura Research Institute & Institute of Southeast Asian Studies, comp., *The New Wave of Foreign Direct Investment in Asia* (Singapore: ISEAS, 1995).
25. Inter-American Development Bank, *Competitiveness: The Business of Growth: Economic and Social Progress in Latin America 2001 Report* (Washington DC: IADB, 2001), p. 13.
26. André Fontana, "Armed Forces and Neoconservative Ideology: State Shrinking in Argentina, 1976–81" (pp. 68–74); and Sérgio Henrique Abranches, "State Enterprises and Modes of Privatization: A Critical View Based on Brazilian Examples" (pp. 75–100), in *State Shrinking: A Comparative Inquiry into Privatization*, edited by William P. Glade (Austin TX: Institute of Latin American Studies, 1986). Harvey Feigenbaum, Jeffrey Henig and Chris Hamnett, *Shrinking the State: The Political Underpinnings of Privatization* (New York: Cambridge University Press, 1998), pp. 41–57 introduces a variety of privatization, suitable to local conditions.
27. Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World* (New York: Touchstone, 1998), pp. 243–49, 260–63.
28. Reinaldo Gonçalves, *Globalização e Desnacionalização* (Rio: Paz e Terra, 1999), p. 14.
29. Joseph P. Quinlan, *Global Engagement* (New York: Contemporary Books, 2001), p. 60.
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Contemporary Southeast Asia, Volume 25, Number 1, April 2003

Book Reviews

***The European Union, United States and ASEAN: Challenges and Prospects for Co-operative Engagement in the 21st Century*. Edited by K.S. Nathan**. London: ASEAN Academic Press, 2002. 398pp.

The central focus of this book is the increasing significance of inter-regional relations, especially the relations that link the European Union, the United States, and ASEAN. With each of these three main regional groupings going through critical changes, and with analysts chronicling the growing tensions between the United States and the European Union, the chapters in the book provide an excellent foundation for gaining an understanding of the history of inter-regional relations and how relations among these key regions might develop. Importantly, of course, each of the regions discussed in the book has either recently expanded its boundaries or is in the process of negotiating the terms for doing so. In Asia, ASEAN, while maintaining its core identity, has promoted the "ASEAN Plus Three" (APT) framework in which it co-ordinates its activities on a number of fronts with China, Japan, and South Korea. In Europe, the Union is set to add ten new members, mostly from Eastern Europe, by 2004. The United States is also currently seeking to expand the North American Free Trade Agreement (NAFTA) into the Free Trade Area of the Americas (FTAA) with thirty-four members by 2005. At the same time, a number of unilateral moves early in the George W. Bush Administration, most notably the denunciation of the Kyoto Accord and the decision to go ahead with the National Missile Defence system, as well as the debate over how to deal with Iraq and the Palestinian question, have been widely interpreted as indicating a growing division between Europe and the United States. Clearly,

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then, regions, regionalization and inter-regional relations are preoccupying analysts and practitioners alike. The publication of this book is thus most welcome.

The editor, K.S. Nathan, has brought together an impressive range of academics who are able to dissect the issues raised by inter-regional relations in a number of different ways. In his introduction to the volume, Nathan provides a central focus for the analyses which follow by exploring EU–U.S.–ASEAN linkages in terms of what he calls "co-operative engagement". This essentially liberal concept emphasizes the positive aspects of the relations among regions by concentrating on a co-operative security approach in terms of dealing with strategic threats and open regionalism in economic relations. Nathan suggests the need for "discussion, debate, dialogue and strategic compromise in areas of divergence" (p. 18) and a multilateral approach to the resolution of specific problems. This is a refreshing antidote to the current emphasis on the seemingly increasing tensions between the regions.

The first set of chapters looks at security issues from the perspective of each of the regions which are central to the book. Trevor Taylor examines the relations among the three regions from the perspective of Europe, Sheldon Simon from the vantage point of the United States, and Chin Kin Wah from the point of view of the ASEAN members. For Taylor and Chin, clearly the United States is the dominant player and the relations between Europe and the United States, and between ASEAN and the United States are critical. Interestingly, however, the reader gets the distinct impression that there is still a good deal of uncertainty in U.S. policy. Taylor, for example, notes that "there is a new transatlantic 'burden sharing debate' waiting to happen" (p. 33), and Simon argues that important aspects of America's strategy towards East Asia are "incoherent" (p. 61). The second set of chapters by H. Ruediger Korff, Ryan Bishop, and Shamsul A.B. address the social, cultural, and psychological links that tie the regions together. In particular, Korff notes the differences in the dominant political cultures of the three regions and the need to take these into account when looking at inter-regional relations, while Shamsul perceptively emphasizes the extent to which "colonial knowledge" underpins various aspects of the way people in each region view international and intercontinental relations.

The third set of chapters, by Leszek Buszynski, Greg Felker, and Wilfido V. Villacorta, examine the Asian economic crisis of 1997–98 and its consequences for regional security and cohesiveness. As Felker, notes, one of the most troubling features of the crisis was the inability of the regional organizations to contribute to managing the crisis in a timely fashion. In many ways, as a response to the problems created by

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the crisis, the two chapters in Part Four of the book look at the development of economic regionalism, especially in Europe and East Asia. Both Giovanni Capannelli and Linda Low emphasize the benefits of an approach to economic regionalism that is open to expanded links with other economic regional groupings. In many ways, they underscore the "co-operative engagement" argument developed by Nathan in his introduction. Similarly, the four final chapters, by Robert N. Wells, Jr., Rizal Sukma, Fernando Rodrigo, and K.S. Nathan explore the prospects for "co-operative engagement" in ASEAN's relations with the United States and with the European Union. It is made clear that, in terms of the U.S. government's relations with East Asia in general and ASEAN in particular, the key is likely to be how the rise of China is managed. With regard to EU–ASEAN relations, the main problem lies with keeping the relationship moving forward rather than allowing it to get mired in disagreements over questions of human rights, or neglected because of what are perceived to be more pressing issues that need immediate attention within each region.

The one drawback in reading this book is that most of the chapters were completed before 11 September 2001 when the terrorists struck against New York and Washington. These attacks and the Bali bombings of 12 October 2002 have clearly had an impact on intra-regional relations. In his conclusion, which was written after 11 September, Nathan notes that "even as globalisation creates a borderless world, especially in the social, cultural and economic spheres, it unleashes various uncertainties that stimulate a strengthening of nation-state structures as the only available and manageable mechanism to cope with change" (p. 374). Within this context, he argues that 11 September has made co-operative engagement between regions even more imperative. It is only through co-operation that terrorism will be defeated. Unfortunately, barriers between regions seem to be increasing. The United States and Canada, for example, have made it much more difficult for the citizens of a number of East Asian countries to travel to North America. To a noticeable degree North America, for security reasons, has become more fortress-like. These latest developments thus make the points discussed in this book all the more pertinent. For the increasing number of scholars and practitioners who are interested in inter-regional linkages, this book will be very useful in exploring the long-term trends that characterize such relations.

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Explaining ASEAN: Regionalism in Southeast Asia. **By Shaune Narine.** Boulder, Colorado and London: Lynne Reiner Publishers, 2002. 237pp.

Much of the extensive literature on Asia's premier regional body is either uncompromisingly critical or advocacy disguised as analysis. This account of ASEAN's flaws and accomplishments is admirably balanced and refreshingly clear in its portrayal of an institution which has lasted far longer than sceptics anticipated but which has clearly reached an important crossroad in its evolution.

Narine addresses three main questions in his book: what accounts for ASEAN's longevity, how has the organization developed in the post-Cold War era, and what are its prospects. These are not new questions but Narine provides some perceptive insights into the dynamics of this unique regional association. He argues that although founded as a security organization, ASEAN's future viability will depend on the capacity of Southeast Asian governments to manage the economic challenges posed by intra-regional growth and globalization.

Much of the book is devoted to a historical analysis of ASEAN and documenting Narine's central thesis that there is an underlying tension between the strong attachment of its member-states to national sovereignty and the creation of a robust regional community. The primary reason for this tension is that "most of the ASEAN states remain deeply engaged in the process of state building; they are trying to create stable national identities out of many disparate domestic factions (p. 3)". Can this tension be resolved? Narine is sceptical. He concedes that ASEAN has been successful in establishing a prototype regional identity and reducing military conflict in Southeast Asia. These are no mean achievements for a region that was synonymous with war and suffering for much of the post-colonial period. Furthermore, ASEAN continues to provide an important forum for Southeast Asians to caucus and project their voice on the international stage.

However, as long as Southeast Asians remain steadfast in their attachment to the dominant norm of non-interference in the internal affairs of member-states, it will be difficult for ASEAN to deepen and intensify regional integration because the amelioration of national sovereignty is a necessary precondition, as Europe attests. Even the organization's much touted success in facilitating a settlement of the long-running Vietnam–Cambodia conflict was a telling demonstration of the region's collective inability to subordinate narrow sectional interests to the greater good. It was also a reminder of the limits of small powers. Vietnam could not have been constrained without the acquiescence and active support of the great powers. A rising China

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and more assertive America will reduce ASEAN's capacity for independent action in the decades ahead.

Narine reserves his most trenchant criticism for ASEAN's failure to deal effectively with the 1997 Asian economic crisis and its aftermath. If ever there was a crisis that warranted a collective, regional response this was it. ASEAN was, however, unable to influence events in any meaningful way and simply "fell apart" (p. 166). In a crisply worded summary, Narine argues persuasively that the crisis weakened ASEAN in three ways. It undermined the confidence, born of economic success, which was at the heart of ASEAN's assertiveness on the international stage; it accentuated the weakness of its claims to be a credible economic institution; and it underlined the dysfunctionality of the "ASEAN Way" (p. 167).

Narine has some interesting things to say about the ASEAN way of diplomacy, based upon the Malay cultural practices of consultation and consensus (*musyawarah dan mufakat*). He contends that although this approach to problem solving has helped defuse intramural tensions and contributed to confidence-building, it has limited utility for resolving disputes. In essence, the "ASEAN Way" is about "the management and containment of problems" (p. 31). As others have observed, notably Arnfinn Jorgenson-Dahl, it is difficult to apply Malay rural notions of *musyawarah* and *mufakat* to the task of managing relations between states in a complex and culturally diverse international system.

One of the strengths of the book is the attention devoted to the economic drivers of regionalism and the author's largely successful attempt to synthesize them with political and strategic factors in "explaining ASEAN". There are useful discussions of the region's financial architecture, especially the Asia-Pacific Economic Co-operation (APEC) forum, the ASEAN Free Trade Area (AFTA), and proposals for an Asian Monetary Fund (AMF), which some believe should "promote and defend a model of 'Asian developmental capitalism' that is more appropriate to Asia than the Anglo-American model promoted by the IMF" (p. 179). Narine, however, sees major obstacles to the creation of an AMF, not least of which is the fact that a successful AMF would weaken many of ASEAN's functions as an economic organization.

Structurally, the book holds together quite well as a coherent whole although the two chapters on the economic crisis could have been incorporated into one, and the sections on the haze problem and East Timor do not sit comfortably in the narrative. The discussion of the regional security environment lacks acuity and focus and tends to stray from the book's basic themes. Readers not familiar with the idea of a security community might find Narine's brief foray into the

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conceptual literature somewhat cursory (pp. 71–74). Moreover, it is debatable how relevant Karl Deutsch's euro-centric expostulation of a security community is to Southeast Asia's particular circumstances as an aggregation of mainly developing states. Narine could have been more innovative in developing an alternative set of benchmarks for measuring ASEAN's performance and progress.

That said, *Explaining ASEAN* is strongly recommended for its clarity, fine scholarship, revealing insights and the thoroughness of its research into ASEAN's strengths and weaknesses. It is difficult to dispute Narine's conclusion that ASEAN has run up against its limits as a political organization and that the prospects for institutional reform are not encouraging. Salvation can only come through a greater commitment to regionalism, which will require member states to cede a measure of sovereignty and build a truly Southeast Asian identity. This is the major challenge for ASEAN in the twenty-first century.

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Malaysia: State and Civil Society in Transition. **By Vidhu Verma.** Boulder, Colorado, USA: Lynne Rienner Publishers Inc, 2002. 253pp.

This book is about the nature and implications of the democratic process in Malaysia. In a more specific sense, it seeks to examine the intricate relationship between civil society and the state to ascertain whether the former has any impact on the latter in developing and sustaining democracy, human rights, and universal values. Of course, the relationship is not sought in a vacuum, but by considering a number of crucial variables, such as the nature and manner of nation-building in Malaysia, how citizenship was restructured under the affirmative action policy, the factors that led to the development of a strong authoritarian state, the oppositional challenge posed by radical Islam and, not least, the focus on current debates about the suitability of universal democratic values to Malaysia.

It is the central argument of the author that while civil society is making its presence felt in the Malaysian political arena, it does not have much impact on determining or influencing the role of the state. On the contrary, the authoritarian state in the country seems to be the

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main stumbling block not only for the development of civil society but also for the creation and sustenance of a democratic space. The sorry state of civil society, according to the author, needs to be understood in the larger historical, political, social, and economic context. Two principal developments have constrained the role of civil society — the development of authoritarian politics under the leadership of Mahathir Mohamad, Prime Minister of Malaysia, and the nature of state contestation emanating from radical Islam.

Civil society in Malaysia simply lacks the democratic space to function effectively. The state domination of society through its institution and programmes coupled with the effective use of repressive legislations have marginalized civil society groups. It is not that the state totally excludes civil society organizations, but the dominant discourse on ethnic rights and interests makes it difficult for these organizations to articulate broader and more universal concerns. Furthermore, given the ethnic hegemony of the United Malays National Organization (UMNO), discourses that could potentially challenge the *status quo* have been discouraged or repressed by the use of legislative and policy mechanisms. Ethnic and cultural subordination of the interests of non-Malays has also meant that their concerns would also be directed to protecting and advancing their ethnic, cultural, and linguistic rights. Given this polarized position, there is little room in the country for the development of discourses that would be able to cut across ethnic and religious lines. Such a state of affairs works to the benefit of UMNO as the protector of Malay rights.

Although there is no denying the fact that contestation of the political and ideological hegemony of the state is dominated by UMNO, it is the form of religious contestation that seems to be mainly concerned with expressing and articulating the rights of Muslims. In this respect, radical Islam as the challenger of UMNO takes on a very exclusive pursuit to the detriment of broader participation of all Malaysians. While this contestation is important in exposing the myth of UMNO's invincibility as the protector of Malays, it is not broad enough to incorporate other aspects of human rights that could draw the support of non-Muslims. As a result, non-Muslims shy away from the radical Islam espoused by PAS (Parti Islam SeMalaysia), although there are some indications that there are other versions of Islam that might have the potential to frame their objectives in such a manner to elicit broader support. Anyway, such a development has not been fully realized in the Malaysian context. Radical Islam provides the most significant opposition to the UMNO-dominated state, but its narrow character makes it difficult to lay the seeds for the development of an all-embracing

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civil society. In the past, UMNO might have co-opted some segments of radical Islam within its party structure, but such a prospect might be dim in the foreseeable future, given the Islamic perspective of PAS.

Thus, given the authoritarian nature of the UMNO-dominated state and the exclusive religious opposition emanating from political parties such as PAS, space for the articulation of the broader aspects of democracy are constrained. Although there are a number of non-governmental organizations (NGOs) in the country, many have been co-opted by the state to discharge its functions. Of course, there are some radical NGOs that oppose the state from the perspective of democratic and human rights, but their role has been heavily constrained by the Malay-dominated state through its policies, programmes, and legislations. Given the overpowering nature of the state, there is little democratic space for NGOs to engage in activities that would promote democratic development. Globalization might be impacting the state, but there is no clear evidence to indicate that this phenomenon is helping to transform or dilute the authoritarian character of the state. Lack of human rights and non-interest in democratic values seem also to be conditioned by the debates in the country that argue that Western values and universal human rights might not be appropriate to the particular cultural set-up in Malaysia.

The author is of the opinion that arguments against universal values and the need to curb excessive pre-occupation with democratic norms might not be sustainable. In the Malaysian case, the need on the part of the state élite to guard certain ethnic and religious privileges and to cushion those who have benefited from economic and social policies seems to be the reasons why broader notions of human rights and values are being neglected. More importantly, the author feels strongly that the preoccupation of Malays and non-Malays with ethnic and cultural rights appears to condone some of the undemocratic practices of the regime. Of course, this emphasis on ethnic rights has served to buttress and ward off significant political challenges to the regime in power. She feels that under the leadership of Mahathir Mohamad, authoritarianism has been well consolidated. However, his popular authoritarianism might not be permanent as radical Islamic politics and the materialistic nature of UMNO politics might corrode whatever political legitimacy in the long run.

Although the radical Islam of PAS has an important role in denying and diluting the legitimacy of UMNO, the exclusive pursuit of purist Islam is not conducive to the debate and resolution of human rights and the pursuit of democracy. However, the author is of the opinion that there are progressive Islamic groups that are inclined to emphasize

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aspects of Islam that are compatible with other religions and cultures. Whether these groups will be able to gain ascendancy in the future remains to be seen. Nonetheless, one thing is certain: oppositional Islamic tendencies to the regime are not homogenous and there many variants; this itself is an important indicator that there is room for non-Islamic groups to engage in dialogue with those Islamic groups that articulate a broader and more egalitarian version of Islam, and show how the values of Islam are quite compatible with other religions and cultures.

This is an important book which makes a useful contribution to the ongoing debate on democracy and civil society in Malaysia. By the use of empirical data, it clearly demonstrates the major constraints faced by civil society in contributing to the development of democracy and cultural pluralism in the country. The book clearly highlights the development of the nature of the state, its primary articulations, and how it constrains the development of democratic space. Beyond this, the author is fully cognizant that society and the state are not static, while global calls for democracy and human rights are making important demands on the state and society. Whether the Malaysian authoritarian state will be able to ward off these progressive calls permanently remains to be seen. In more concrete terms, the process of delegitimation of the state by societal forces is in motion.

While the study makes an important contribution, there are a few drawbacks. First, the study could have been presented more efficiently had the author organized the theoretical material in the first chapter and allowed the rest of the chapters to touch on empirical developments in Malaysia. As a result, empirical data on civil society has been sacrificed to some extent. Secondly, there is too much guidance provided by the author that tends to interfere with the flow of arguments. Thirdly, some of the information provided by the author might not be very accurate; for instance, labelling the Acehnese struggle as based on Islam is somewhat misleading. Moreover, arguing that Mahathir Mohamad ordered the court to de-register the old UMNO sounds rather simplistic.

However, these problems notwithstanding, the author should be commended for producing a good quality book on the nature of civil society and democracy in Malaysia. This book is not only timely, but it will also certainly be useful for students of Malaysian politics interested in political and social change.

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Peacekeeping in East Timor: The Path to Independence. **By Michael Smith with Moreen Dee.** International Peace Academy Occasional Paper Series. Boulder, Colorado and London: Lynne Reinner Publishers, 2003. 214pp.

Major General Michael G. Smith, now retired from the Australian army, was the deputy force commander of the United Nations Transitional Administration in East Timor (UNTAET) peacekeeping operation (PKO) from January 2000 to March 2001. In writing a "first-hand account" of his experiences in East Timor, Smith is assisted by historian Moreen Dee, and bolstered by prefaces from Sérgio Vieira de Mello (UNTAET head) and Xanana Gusmão (East Timor's President). Essentially, the book outlines the nature of the PKO in East Timor, with the plain intention of drawing out didactic lessons on peacekeeping in general.

General Smith contends that the likely nature of conflict in the future will be the type of low-level violence experienced in places like, *inter alia*, East Timor, Bosnia, and Kosovo, and so the international community had best be prepared for it. The cause of this, the author tells us, is an apparent increase in subnational and transnational violence (for example, see p. 20) in a world increasingly prone to division along identity lines. One could put forward a compelling case that this type of low-level violence is not new — what might be new is a willingness by global actors to intervene (albeit in selected cases). East Timor is a classic case in point. While INTERFET (International Force East Timor) under Australian leadership may have intervened in 1999, the East Timor conflict goes back to the 1970s. Conflicts like those in the Balkans, Somalia, Rwanda, and so on, have far older origins. The end of the Cold War, coupled with public pressures in liberal democracies for intervention in humanitarian crises, mean that civil war is likely to gain international attention. Thus, Smith's essential point stands — that modern militaries had best prepare for such conflicts.

Peacekeeping in East Timor starts with a standard, and sensible, potted history of the East Timor situation. From page 67, Smith begins his assessment of the PKO in East Timor, before making his recommendations at the end. One wonders what lessons can be learnt from East Timor. Although East Timor ranks as one of the United Nation's most ambitious undertakings, it was, relative to all the other missions since the birth of peacekeeping, one of the most straightforward. Smith notes that the East Timor operation had the consent of the vanquished — the Indonesian Government — as well as the general population of East Timor. East Timor's resistance fighters, Falintil, who had lived in East Timor's rugged interior during the twenty-four years of bitter warfare with the Indonesian army, showed

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behaviour during the reconstruction that was "exemplary" (p. 48). Smith admits that these conditions are "rare". Yet the term "exceptional" might be more apt.

That said, however, chapters four and five of this volume provide some valuable lessons for future peacekeeping missions. There are many recommendations in these sections, and they cannot all be repeated here. Some should be elementary, although worth repeating, such as legitimacy, achievable mandate, an exit strategy, moving through to other areas like effective governance, language skills, addressing past human rights abuses, and so on. Smith argues that the modern peacekeeping soldier should have a mixture of "warfighting and constabulary-CMA [civil-military affairs] qualities" for the types of conflict likely to be faced (p. 124). One issue that concerns General Smith is the failure of key member-states to have forces on standby to mount an operation such as East Timor (p. 124). Fortunately for East Timor, Australia — one of the few countries in the global community with the will and capacity to conduct such an operation — had prepared for such a contingency in 1999.

While Smith's first-hand account conveys much about peacekeeping (or peacemaking) in East Timor, there is also much that it conceals. Smith's goal is not to point the finger at country contributions or military leaders who may not have measured up — compare this to the exposé of various United Nations missions written by William Shawcross (*Deliver Us From Evil: Peacekeepers, Warlords and a World of Endless Conflict,* 2000). It is well known, for example, that while Australian and New Zealand forces patrolled the border regions, later to be joined by a small Singapore detachment, other contributions preferred the safety of the hinterland. UN PKO missions are often like that. Problems with the wider UN mission, including a large number of civilian personnel, are couched in careful terms: "The UN was accused of saturating Dili with vehicles and personnel, creating an artificial and unsustainable local economy — a situation that did little for the East Timorese." Is Smith confirming here that UN resources were poorly distributed? Or is it simply that the accusation was made? In fact, it was the case that UN resources could have been more effectively used. A struggle for power between the East Timor leaders and UNTAET staff developed during the mission, which Smith also mentions in passing.

However, it must be noted that Smith's book is a valuable addition to the literature on East Timor. It is particularly welcome, given Smith's prominence in the East Timor operation as an important actor. This publication is the second sponsored by the International Peace Academy on East Timor — the other being that of United Nations Mission in East Timor (UNAMET) head, Ian Martin (*Self-Determination in East Timor:*

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The United Nations, the Ballot, and International Intervention, 2001, 171 pp.). Smith's work makes a valuable contribution in both explaining the nature of peacekeeping in East Timor and providing some useful lessons for such operations. Most of all, it reminds the reader that the United Nations, which is constrained by its member-states, still has a long way to go in preparing for low-intensity conflicts around the world, in which, as General Smith warns, it will most likely find itself involved more often.

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Vietnam and Beyond: A Diplomat's Cold War Education. **By Robert Hopkins Miller.** Lubbock, Texas, USA: Texas Tech University Press, Modern Southeast Asia Series, 2002. 247pp.

Cover to cover, *Vietnam and Beyond* is an interesting read. The author, Robert Miller, used his long career in the U.S. foreign service as the prism through which he viewed the highs and lows of American foreign policy from post-World War II to the end of the Cold War. In this history, the highlight of this lifelong dedication to the foreign service is the author's posting to Saigon as well as his involvement in the negotiations, both as a middle-level officer in the State Department in charge of Vietnam (Vietnam Working Group) and as a member of the U.S. delegation at the Paris Peace Talks with Vietnam. Miller's assertions regarding key decisions as well as key personnel in the State Department (for whom he worked) and in the Defence Department (with whom he had to work) are fairly guarded, and as a result uncontroversial. Even though he did not rise to the very top of the bureaucratic hierarchy in the State Department, his presence at the key moments of U.S. foreign policy towards Vietnam renders him a legitimate voice on the state of play at that time. The facts in Miller's assertions also appear to be well supported by declassified official documents.

The reviewer came away after reading the book sensing that the author's life was well-led and his experience of the Vietnam War was fairly straightforward. It was also privileged, given his position as a foreign service officer in Saigon. Like many others who were veterans, Miller also gave an account of blood and tears. He was a casualty in the bomb attack on the U.S. Embassy in Saigon in 1965. It is useful to

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remember, however, that this is a diplomat's memoir whose perspectives are different from those of the ordinary Vietnamese, or the foot-soldiers of the United States in the war. Miller's posting was not a plum, but in no way could he have experienced Vietnam the way ordinary Vietnamese did. This is a perspective I sorely missed but later realized that I was looking for something that was never there.

Cutting to the point, indeed, the value of a book ultimately depends on what the reader is looking for. *Vietnam and Beyond* is most useful to two groups of people. The first group comprises scholars researching the U.S. public policy process, warts and all. The second group comprises scholars who may want to unravel the role of a myriad range of actors in the U.S. Embassy during the foundational stage of Kennedy's policy towards Vietnam. The book is not useful for military historians unless they want to be informed about the political aspects of the war. There are no details of battles and strategy in the war.

Where U.S. national strategy towards Vietnam is concerned, the author does discuss the foreign policy component as well as the generality of that strategy, but the analysis does not go deeper into discussing, and perhaps even substantiating, his assertion that the Vietnam strategy he preferred would have made a difference to history. What the book does show, and this point has been well-noted before, is that the American plunge into Vietnam was done with strategic haste, having little background understanding — especially the historical background of colonialism, exploitation, and revolution — of what Vietnamese think of Vietnam and how strategic moves by the United States should be considered within that context. For instance, the author noted that when Nguyen Khanh executed the coup in 1964, "...so unfamiliar were we with the political dynamics of the body politic (and military) in the wake of Diem's demise that we were uncertain whether Khanh's coup was a good thing or a bad thing for U.S. goals and objectives" (p. 75). Vietnam was obviously a new frontier for many American diplomats and the State Department.

There is also no new perspective on the Vietnam War and how it is related to the Cold War to be found in *Vietnam and Beyond*. Miller's schooling during World War II, and perhaps also his first posting to Europe (Paris and Brussels) after the War, shaped his views of the geostrategic chessboard. In Europe, he encountered the Cold War theatre right at its heart. When he was posted to Saigon in 1960, as he admitted, he had absolutely no experience on Asia, let alone Vietnam. Yet the Cold War was heightening and there was no time to think thoroughly what the U.S. involvement was about and how it should be conducted. More importantly, thinking about what Southeast Asians want and what Vietnamese want were completely absent from this chessboard, as

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was the case for most people who were working on U.S. policy in Southeast Asia.

As expected, the book also touches on the role of Henry Kissinger in foreign policy making, especially in the alleged regular intervention by Kissinger over the authority of the State Department. There is a certain emphasis by the author on the negative aspects of Kissinger's role in U.S. foreign policy. Perhaps this is a reaction from Miller, in part caused by Kissinger's attempts in the post-Vietnam era to exonerate himself through his own writing. Miller does not hide, like many other commentators on the Vietnam policy of the Nixon Administration and the Vietnam War, his refusal to accept the Nixon–Kissinger assertion that the retreat from Vietnam was honourable.

Miller has a bigger regret: the U.S. usurpation of a war that should have been fought by the Vietnamese themselves. He claims that South Vietnam was being drowned with too much advice, too much aid, that they did not know what to do, and that this was a major reason why U.S. involvement ended in deep disappointment. Because the South was so overwhelmed by the United States, the latter had no choice but to take over. Miller had wanted the Vietnamese to take ownership of the war. He thinks the United States should have let the southern Vietnamese fight the war on their own terms, with the United States merely helping with supplies and watching — a policy line guaranteed to succeed.

With some hindsight, one may even say that Miller's suggestions would never have found favour. At the height of the Cold War during the early 1960s, reaching a peak at the Cuban missile crisis, the United States was keenly concerned with the proxy war strategy of the Soviet Union, a strategy that successive U.S. administrations believed needed to be confronted through military containment in the proxy countries. Containment? Yes, but how? Striking military alliances and propping up weak but democratically elected regimes is one way, and helping them to fight their wars against communist enemies is another. Not doing anything would have meant ultimately an encirclement of the United States.

Perhaps the best assessment of Miller's argument is that its logic is sound but it is purely academic as it was not enunciated forcefully enough to attract the attention of policy-makers. Thus, in this sense, it was an idea worthy of its time but whose time did not arrive, given the wider geostrategic environment, and perhaps Miller's own considerations regarding the propriety of going high profile in the light of his own career. It would have changed his life completely.

Is there any relevance of what has been discussed about the strategy in the Vietnam War to the war on terrorism? There are some grounds for

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comparison that are obvious. For instance, both wars manifest a strategy against an enemy that is global in scale. Both wars are being fought with U.S. forces on foreign soil. Both wars have a domestic front, mainly political in nature, involving very much a suitable media strategy for propaganda. However, I think the greater interest is in the differences. The war on terrorism enjoys a far greater amount of domestic political support. Furthermore, whereas in the Vietnam War the spectre of a direct threat to the United States was more distant, this time around, homeland security was clearly breached by the 11 September 2001 terrorist attacks. This perceived direct threat to national security has provided substantial legitimacy to U.S. military action in Afghanistan, and which is surprisingly being little eroded by the Bush Administration's minor detour to deal with Iraq.

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiya

ZACHARY ABUZA

The war on terror has been well executed in Southeast Asia. The arrests of more than 160 Jemaah Islamiya-linked militants since December 2001 have disrupted the capabilities of terrorist operations. JI is less able to execute major attacks than they were a year ago. Yet there are causes for concern: first the group is rebuilding its capabilities. Second, there have been no gains in combating terrorist financing in the region, and to date no terrorist assets or funds have been seized in the region, despite evidence that Southeast Asia has only increased in financial importance to Al Qaeda. JI's financial operations are complex, ranging from legal to illegal, overt to covert. Due to the nature of their funding mechanisms and the fact that terrorism is asymmetrical warfare, combating terrorist financing will not be easy. Yet, choking the terrorist lifeblood is as important as targetting the operational cells themselves.

Introduction

The war on terror has continued apace in Southeast Asia, and the governments in the region deserve credit for the arrests of some 150 Jemaah Islamiya (JI) members through April 2003. Several of the members of JI's regional *shura* (council) were arrested, including Mohammed Iqbal Rahman (Abu Jibril), Agus Dwikarna, and Faiz bin Abu Bakar Bafana. These arrests were significant, especially as the JI is not a large organization, with probably no more than 500 members. The fact that they are now focusing on soft targets such as tourist venues rather than

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hard, though symbolic, targets may indicate institutional weaknesses, the result of 20 months of intensive investigations and arrests. They are less able to plan and execute terrorist attacks than they were a year ago, though they still maintain their capacity to attack soft targets. That said, one would be foolish to underestimate JI's capabilities or goals. As many of the key operatives are still at large, the organization retains the capacity and will to launch devastating attacks throughout the region.

The glaring exception to the success in fighting terrorism has been on the financial front: mechanisms for funding terrorism have continued unabated in Southeast Asia, and to date no terrorist assets or funds have been seized in the region. Two leading members of Jemaah Islamiya, Hambali and Abu Jibril, had their assets blocked by the United States under Executive Order 13244 on 24 January 2003 (18 months after Abu Jibril was arrested). Indeed, this is a worldwide problem: as of January 2003, only US$113 million in Al Qaeda-linked assets had been frozen.

In early 2003, the U.S. Department of Treasury's Office of Foreign Asset Control drew up a list of 300 individuals, charities and corporations in Southeast Asia believed to be Al Qaeda and Jemaah Islamiya funders. Due to inter-agency politics, the list was winnowed down to 18 individuals and 10 companies. But even at the time of writing in early April 2003, the list was still unannounced due to diplomatic and bureaucratic pressure.

Yet Southeast Asia seems to have gained in importance to Al Qaeda's money men, according to U.S. law enforcement officials. The head of the terrorist financing tracking unit at the Federal Bureau of Investigation (FBI), asserts that, with the crackdown on Middle Eastern funding mechanisms, especially the financial centres in Abu Dhabi and other parts of the United Arab Emirates, Al Qaeda has increasingly relied on Southeast Asia to move its money and hide its assets.[1]

Al Qaeda's financial network is very sophisticated and complex, dating back to the late-1980s to early 1990s. Osama bin Laden set out to establish an organization that would be self-sustaining over time; one part self-reliant, another part reliant on the *ummah*, the Muslim community. Built on "layers and redundancies", Al Qaeda's financial backbone was built on a foundation of charities, non-governmental organizations, mosques, websites, fund-raisers, intermediaries, facilitators, and banks and other financial institutions that helped finance the *mujiheddin* throughout the 1980s. This network extended to all corners of the Muslim world.[2]

"The goal of counter-terrorism", according to Mathew Levitt, "should be to constrict the environment in which terrorists operate", including "their logistical and financial support networks", which "denies terrorists the means to travel, communicate, procure equipment

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and conduct attacks".[3] This is arguably the most difficult part of the war on terror, as terrorist organizations use myriad ways to fund their operations, legal and illegal, overt and covert, with paper trails or without. Tracking this funding was also never a priority for law enforcement or counter-terrorist officials—terrorist financing was always seen as ancillary to counter-terrorist operations, but never a primary agenda in its own right.

How does Al Qaeda fund its operations in Southeast Asia? How does its regional arm, the JI, support itself?[4] Malaysian intelligence officials believe that Hambali, the head of JI's operations and a member of Al Qaeda's *shura*, has approximately US$500,000 in assets at his disposal for use in operations. There are eight primary sources of income, both internal and external, though most funds come from external sources. As Mukhlas (Ali Gufron), the leader of the cell that perpetrated the Bali attack said, "Hambali is not known to have any big [local] funding sources". To that end, Indonesian investigators unequivocally stated that "Jemaah Islamiya's jihad operations were funded by Al Qaeda".[5] The sources of funding include:

- cash brought into the country by individuals
- funds skimmed from Islamic charities
- corporate entities (some very overt, others are self-sustaining fronts for terrorist activities)
- proceeds from *hawala* shops and gold sales
- contributions (*zakat* and *infaq*) from its own members
- contributions (*infaq*) from outsiders
- Al Qaeda investments and accounts already established in the region, especially in the region's Islamic banks, and
- petty crime, racketeering, extortion, gun-running and kidnapping.

None of these funding mechanisms has been effectively shut down since the war on terror began. In part it has been due to the near impossibility of shutting down, for instance, *hawala* networks, or stopping petty crime. In part, it is also due to bureaucratic inertia, a lack of political will, and diplomatic pressure. Indeed, one of the aspects that made Southeast Asia so appealing to the Al Qaeda leadership in the first place was the network of Islamic charities, the spread of poorly regulated Islamic banks, business-friendly environments, and economies that already had records of extensive money laundering. Al Qaeda saw the region, first and foremost, as a back office for their activities (especially to set up front companies, raise funds, recruit, forge documents, and purchase weapons); only later was it seen as a theatre of operations in its own right. As Al Qaeda's affiliate organization in Southeast Asia, the Jemaah Islamiya developed its own capabilities.

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Southeast Asia has long been a centre for transnational criminal activities such as drug and gun-running, money laundering, people smuggling, and document forging. Indeed money laundering has still not been made a criminal offence in all Southeast Asian states—the OECD's Financial Action Task Force (FATF), still has Indonesia, the Philippines and Myanmar on its blacklist. In most cases, terrorists differ from transnational criminal organizations, which are driven by profit motives. But if you strip away terrorist actions themselves, terrorists require the same infrastructure as transnational crime. Southeast Asia, thus, becomes an important area of operations.

It is also important to realize that fairly modest sums of money are all that are needed to perpetrate acts of terror. The Bali bombing in which 202 people were killed, and led to the estimated loss of more than US$1 billion in tourist revenue for Indonesia, cost under US$35,000—terrorism is truly asymmetrical warfare.

Funding Jemaah Islamiya

Bags of Cash

The most direct way that the JI is funded is through deliveries of cash by personal couriers. This is literally impossible to stop. According to Malaysian and Singaporean intelligence reports, the JI received some Rp1.35 billion from Al Qaeda since 1996. According to regional intelligence officials, that year, the JI received Rp250 million, Rp400 million in 1997 and Rp700 million in 2000 (roughly US$40,000 and US$70,000 respectively).[6] Omar al-Faruq testified to transferring US$200,000 to the JI's Indonesian cell after 2000.[7]

Sheik Abu Abdullah al-Emarati, an alias of Osama bin Laden, was also involved in funding JI operations. He purportedly gave US$74,000 to Omar al-Faruq to purchase three tons of explosives for JI operations. The Bali attack likewise was funded by US$35,000 transferred by Wan Min Wan Mat, believed to be an important JI treasurer in Malaysia,[8] to Mukhlas and Imam Samudra, the leading perpetrators in the Bali bombings.

A Jordanian man, Hadi Yousef al-Ghoul was arrested in his home west of Manila, Philippines, on 27 December 2001. Police officials contended that "Al-Ghoul is a member of one of the terrorist cells in the Philippines assigned to carry out a string of bombings in Metro Manila", but more importantly, he was seen as a mid-level Al Qaeda money man, who provided cash to locally-based Jemaah Islamiya operatives to whom he was believed to be financially supporting.[9]

Mohammed Mansour Jabarah, a Canadian-Kuwaiti Al Qaeda operative, was dispatched to Southeast Asia in 2001 with some

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US$10,000 in seed money provided by Khalid Sheikh Mohammed, Al Qaeda's chief of operations. To conduct operations against U.S. targets in Singapore and Manila, Jabarah was given US$30,000 in three US$10,000 instalments in November 2001 from a man he identified as Al Qaeda's main money man in Malaysia. Jabarah was the primary conduit for Al Qaeda funds to Fathur Rohman al-Ghozi, the head of JI operations in the Philippines, who was responsible for purchasing TNT for operations in Manila and Singapore. When Jabarah left Singapore for Kuala Lumpur and later Thailand when he was on the run, the Canadian Security and Intelligence Service interrogation report states that he relied on infusions of cash from Al Qaeda operatives based in the region.[10]

As one Indonesian intelligence official said, "you could bring a container of cash into the country without being noticed." As it is impossible to halt this source of funding, short of searching everyone entering the country, we should focus on sources of funding that we have a chance to stop.

Islamic Charities

Much of Al Qaeda's funding is thought to come from charities, either unwittingly or intentionally siphoned off. This is possible as Al Qaeda inserted top operatives in Southeast Asia into leadership positions in several Islamic charities. Indonesian intelligence officials estimate that 15 to 20 per cent of Islamic charity funds are diverted to politically motivated groups and terrorists.[11] In the Philippines, estimates range from 50 to 60 per cent.[12]

In Islamic culture, Muslims are expected to donate 2.5 per cent of their net revenue to charity, known as *zakat*.[13] "In many communities, the *zakat* is often provided in cash to prominent, trusted community leaders or institutions, who then commingle and disperse the donated moneys to persons and charities they determine to be worthy."[14] This practice is unregulated, unaudited, and thus leads to terrible abuse by groups such as Al Qaeda. There are some 300 private charities in Saudi Arabia alone, including 20 established by Saudi intelligence to fund the Afghan Mujiheddin that send upwards of US$6 billion a year to Islamic causes abroad.[15] It is estimated that US$1.6 million per day is donated by wealthy Saudis alone. More disturbing, a Canadian intelligence report concluded that Saudi charities alone were funnelling between US$1–2 million annually to Al Qaeda's coffers.[16] The Council on Foreign Relations, which published one of the most authoritative accounts of the problems facing the war against terrorist funding, concluded that "For years, individuals and charities based in Saudi Arabia have been the most important source of funds for Al Qaeda; and

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for years, Saudi officials have turned a blind eye to this problem".[17] One Saudi analyst believed that between US$40 to US$58 million that was donated to legitimate Saudi-based charities "has gone astray" in the past few years, with no legal or diplomatic repercussions.[18] A former senior U.S. Treasury official, Stuart E. Eizenstat, stated that Saudi Arabia was treated "with kid gloves," even though U.S. officials were aware of the use of Saudi charities by terrorists.[19]

The four most important Saudi charities are the Islamic International Relief Organization (IIRO), which is part of the Muslim World League, a fully Saudi state-funded organization whose assets were frozen by the U.S. Treasury; the Al Haramain Islamic Foundation, also based in Saudi Arabia; Medical Emergency Relief Charity (MERC);[20] and the World Assembly of Muslim Youth.[21] The President of the World Assembly of Muslim Youth is Sheikh Saleh al-Sheikh, the Saudi Minister of Islamic Affairs. He is also the "superintendent of all foundation activities for Al Haramain. In March 2002, the United States froze the accounts of Al Haramain's offices in Bosnia and Somalia. The Bosnian branch was re-opened in August 2002 under Saudi pressure.[22] In September 2002, Bangladeshi authorities raided Al Haramain's offices in Dakha, which they suspected of funnelling Saudi money to recruiting Bangladeshis to fight in Kashmir and Afghanistan.[23] Although most donations to Islamic charities go to legitimate social work, albeit to win political support, such as mosque construction, charities, cultural centres, and NGOs, a significant amount of money is diverted to terrorist and paramilitary activities. To be sure, it is doubtful that the leadership of any of these charities has set out to assist terrorists, but there is a surprising lack of knowledge of what their branch offices are doing on the ground. There is paltry oversight of how their funds are actually being used and allocated.

Zakat donations are common throughout Southeast Asia, indeed in late 2001, the Indonesian government agreed to make *zakat* tax deductible in order to encourage charitable donations. In addition to *zakat* donations, which are obligatory, there are also *infaq* and *shadaqah* donations—both are voluntary and made depending on individual circumstances. Yet, unlike Western closely regulated and audited NGOs and charities, those in Southeast Asia are almost completely unregulated, allowing for financial mismanagement and the diversion of funds to terrorist cells (though, even in the United States, two large Muslim charities were shut down post September 11 for their ties to terrorist organizations: the Benevolence International Foundation and the Holy Land Foundation for Relief and Development). For this reason, Osama bin Laden's initial foray into the region came in the form of charities

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run by his brother-in-law, Mohammed Jamal Khalifa, in the Philippines, including a branch of the IIRO.

Mohammed Jamal Khalifa's Philippine Charities

In 1988, bin Laden dispatched his brother-in-law Mohammad Jammal Khalifa[24] to the Philippines to recruit fighters for the war in Afghanistan. Khalifa was already engaged in radical Muslim politics and was a very senior member of the Muslim Brotherhood in his native Lebanon. Starting in 1985, Khalifa ran the Peshawar office of the Saudi Muslim World League, where he was active in sending recruits to join the *mujiheddin*. He had close ties to two of bin Laden's top financiers, Wael Hamza Jalaidin and Yasin al-Qadi, who was the head of the Muwafaq Foundation that was designated by both the Saudis and the Americans as a terrorist front. Muwafaq, which had a US$20 million endowment, was found to have sent millions of dollars to Al Qaeda in the 1990s before it was shut down.[25]

Khalifa established several other charities and Islamic organizations in the Philippines, ostensibly for charity and religious work, which channelled money to extremist groups, including a branch office of the Saudi charity MERC International and two local NGOs, Islamic Wisdom Worldwide and the Daw'l Immam Al Shafee Center. He established Al Maktum University in Zamboanga using funds from IIRO.[26] He also established a branch office of the IIRO in Zamboanga. According to IIRO's office in Saudi Arabia, its activities include an orphanage and dispensary in Cotabato City, dispensaries and pharmacies in Zamboanga, including a floating dispensary that served remote coastal communities in Western Mindanao. It provides food and clothing to internally displaced people who fled war zones. In addition, IIRO funding went to schools and scholarships. The IIRO asserted that it always did this, if not in cooperation with the government, with at least official approval.[27] All of these projects, though legitimate charitable work, were located in MILF zones or in urban population centers where the MILF was trying to make inroads as they began to focus on a political strategy and pursue an East Timor-like referendum process.

Perhaps the most important charity established by Khalifa was the little known International Relations and Information Center (IRIC), which engaged in numerous activities, for the most part philanthropic: livelihood projects, job training (carpentry, fish farming, farming), orphanages, Islamic schools and other social work.[28] The IRIC was also the primary funding mechanism for Khalid Sheik Mohammed, Ramzi

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Yousef, and Wali Khan Amin Shah's attempt to blow up 11 American jetliners in early 1995, in what was known as Oplan Bojinka.

According to the Philippine National Security Advisor, Roilo Golez, Khalifa "built up the good will of the community through charity and then turned segments of the population into agents".[29] Yet, the IIRO quickly attracted the interest of the Philippine police and military intelligence which saw it as a front organization for insurgent activities. "The IIRO which claims to be a relief institution, is being utilized by foreign extremists as a pipeline through which funding for the local extremists are being coursed through", a Philippine intelligence report noted.[30] An Abu Sayyaf defector acknowledged that "The IIRO was behind the construction of mosques, school buildings and other livelihood projects" but only "in areas penetrated, highly influenced and controlled by the Abu Sayyaf".[31] For example, in Tawi Tawi, the director of the IIRO branch office was Abdul Asmad, who was the Abu Sayyaf's intelligence chief until he was killed on 10 June 1994. The defector said the IIRO was used by bin Laden and Khalifa to distribute funds for the purchase of arms and other logistical requirements of the Abu Sayyaf and MILF: "Only 10 to 30 per cent of the foreign funding goes to the legitimate relief and livelihood projects and the rest go to terrorist operations".[32]

The Philippine government has asserted that all the charities run by Khalifa in the Philippines used to funnel money to the Abu Sayyaf group and the MILF have been shut down.[33] Yet, one senior intelligence official complained to me, "We could not touch the IIRO".[34] It took the Philippine government almost six years to shut their office in the Philippines; from 2000 until September 2001, the IIRO still funded projects in the country through its representative offices in Malaysia and Indonesia. The IRIC's operations and staff were taken over by another Islamic charity, the Islamic Wisdom Worldwide Mission, headed by a close Khalifa associate Mohammed Amin al-Ghafari in 1995.[35] The Daw'l Immam Al Shafee Center, likewise, remains operating.

Why was the IIRO allowed to stay open? The simple answer was that there was intense diplomatic pressure from Saudi Arabia on the government of the Philippines. It is a very well connected charity, whose supporters include the Saudi royal family and the top echelon of Filipino society. Their most important source of leverage was the visas and jobs for several hundred thousand Filipino guest workers. One of the board members of the IIRO Philippine office was, not coincidentally, the Saudi Ambassador.

Unfortunately, the Philippine experience is not as unusual as it seems. For example, although the United States and Saudi Arabia shut

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down the Somali and Bosnian offices of Al Haramain on 11 March 2002, by August 2002, the Saudi Arabian government had applied enough diplomatic and financial pressure that the charities' assets were released and licences were restored.[36]

Malaysian and Indonesian-based Charities

Al Qaeda established a number of other charities in the region. In Malaysia, Hambali, established a charity, Pertubuhan al Ehasan, in 1998, in order to fund *jihad* activities in the Malukus. The charity remained open until its closure in 2002 and in total raised Rp500,000 (roughly US$200,000).[37] The money went to purchasing weapons, training, clothing and feeding recruits for the *jihads* in the Malukus and Poso. Much of the money came from donors within Malaysia, though foreign donors were solicited through the Internet. It is not clear if the donors were aware that their money went to militant activities, as they were told that their money went to humanitarian causes in the Malukus.

In Indonesia, a similar development of charities as terrorist fronts occurred. JI and Al Qaeda leaders assumed leadership positions, often becoming regional branch chiefs, or formed alliances with several important Saudi-backed charities, including MERC, the IIRO and Al Haramain.

One of the most important charities in all of this was the Komite Penanggulangan Krisis, better known as KOMPAK, an independent arm of the Dewan Dakwah Islam Indonesia (DDII), founded on 1 August 1998. The Dewan Dakwah is one of Indonesia's most important Islamic social organizations that was founded in February 1967, and to the degree that it survived under the New Order regime, it earned the respect of the community for frequently standing up to the Suharto administration and pushing for Islamic causes.

The Dewan Dakwah established KOMPAK to address humanitarian needs that arose from the sectarian conflict that erupted in the Maluku Islands in 1998. KOMPAK officials, while acknowledging that they operate in regions struck by sectarian conflict (Aceh, Poso, Malukus, and Bangunan Beton Sumatra), assert they are there to alleviate the crises and provide necessary relief. They deny any links to "*jihad* activities".[38] "We never give our money to the *mujiheddin* or terrorists. We give our money to the needy, unemployed of the *ummah*". The official stated that "I have no comment on the conflicts" and that the "link between KOMPAK and terrorism is not true." Undoubtedly, KOMPAK has been involved in charitable work: there is ample evidence that it has distributed food, clothing and medicine.

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Yet there is also considerable evidence that KOMPAK played an important role in supporting sectarian conflict in the Malukus and Poso while channelling money from Al Qaeda to these causes. Even their humanitarian work—medicine and food distribution—supported the Muslim paramilitaries, freeing up the latter's own resources for weapons and salaries. KOMPAK has never been neutral; it was founded and coalesced around the issue of sectarian fighting in the Malukus and South Sulawesi.

Many KOMPAK officials themselves have been linked to terrorism. The former chairman of KOMPAK's South Sulawesi office was Agus Dwikarna, and the head of the Jakarta office was Tamsil Linrung. Linrung, a member of the DDII and the former treasurer of the National Mandate Party (PAN) before quitting the post in January 2002, was identified by Omar al-Faruq as a JI operative and a participant in the three Rabitatul Mujiheddin meetings in Malaysia from 1999–2000.[39] One of Abu Bakar Ba'asyir's top lieutenants, Aris Munandar, suspected of purchasing much of the explosives for the bombings across the region on the anniversary of 9/11, was the head of KOMPAK. Dwikarna was the head of a group called the Committee to Implement Sharia in South Sulawesi and the number four official in Abu Bakar Ba'asyir's overt civil society organization, the Mujiheddin Council of Indonesia. He established one of the JI's two paramilitary organizations, the Laskar Jundullah, and was arrested at Manila's international airport in March 2002 carrying C4 explosives in his suitcase.[40] When asked about that, the Secretary of KOMPAK stated, "What he does outside of KOMPAK is not our responsibility."[41] When asked how they could be sure that none of their money goes to the Laskar Mujiheddin or the Laskar Jundullah, KOMPAK's secretary general curtly replied, "We have no link to them."[42]

KOMPAK also produced propaganda and recruitment videos for Dwikarna's paramilitary group, the Laskar Jundullah, and Abu Jibril's Laskar Mujiheddin, emphasizing both their military strength and sense of Muslim persecution.[43] The videos are graphic and one-sided, portraying the Muslim communities being victimized by Christian vigilantes, and small groups of poorly armed Muslims fighting back. Although the KOMPAK videos do show the organization distributing food aid to beleaguered refugees, the context of the documentaries is biased. Their graphic footage conveys a sense of brutality and utter victimization, justifying self-defence. Several of the videos have professionally produced footage, soundtracks, and minimal narration. In KOMPAK's Jakarta headquarters, officials denied all knowledge of the videos but a number of them viewed by the author were clearly produced by KOMPAK, with their logo on the screen throughout.

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In addition to these senior KOMPAK officials being arrested for, or detained on, suspicion of terrorism, KOMPAK has joint projects with important Saudi charities, notably, the IIRO, Al Haramain, and MERC, often serving as their executor or sub-contracting agency. Both MERC and the IIRO were engaged in "projects" in Ambon and Poso.[44]

MERC too has been engaged in "documentary film-making" in Indonesia. Unlike KOMPAK's videos, MERC's do not show fighting or convey any sense of hope by showing Muslim militias or *jihadis* fighting back. MERC's videos are of a very high quality; produced by their own information office and production company, they focus on the innocent victims of sectarian conflict and show makeshift hospital wards or squalid refugee quarters. The videos stay close to MERC's core mission of providing emergency medical and humanitarian relief. Like the KOMPAK videos, they convey a sense of Muslim victimization at the hands of Christian militias. With their emotionally evocative music, they would be very effective fund-raising tools.

Al Haramain was also tied in with militant groups and the Jemaah Islamiya in Southeast Asia. Again, a similar cast of characters emerges, with overlapping leadership. Agus Dwikarna was the local representative of the Saudi Charity Al Haramain in Makassar in South Sulawesi, which al-Faruq admitted was the largest single source of Al Qaeda funds into Indonesia.[45] Al-Faruq lived near Agus Dwikarna in Makassar (Ujung Pandang) in South Sulawesi and was the key backer of Dwikarna's Laskar Jundullah, one of the JI's two paramilitary organizations.[46] Al-Faruq also worked closely with Ahmed al-Moudi, the head of the Al Haramain Foundation office in Jakarta.

Indonesian intelligence sources contend that the head of Al Haramain's headquarters in Saudi Arabia, a Saudi citizen they identify only as Sheikh Bandar, was a frequent visitor to Indonesia, as he kept a wife in Surabaya. A senior Al Haramain official, he was known to deliver briefcases of money on his visits to Indonesia, which were delivered through Ahmed al-Moudi.[47]

A figure central to all of this was not even Southeast Asian, but Middle-Eastern. In CIA's September 2001 Orange Alert document, one of the key financiers in Southeast Asia, according to al-Faruq, was Rashid, a senior lieutenant of Osama bin Laden: "Rashid also acts as a representative of a committee of Gulf-state sheiks who are Al Qaeda financiers and who have committed ample funds, weapons, ammunition and computers to support this war. Funds are channeled through the Al-Haramayn NGO". Badan Intelijen Negara's (BIN) report on Omar al-Faruq, corroborated this account: "Faruq was given orders by Rashid to get money transferred to the foundation's [al Haramain] office in Jakarta through Ahmed Al-Moudi".[48]

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The investigation of Reda Seyam, the man BIN officials believe to be the most senior Al Qaeda financier in Southeast Asia, a former Islamic charity official in Bosnia in the mid to late 1990s, uncovered further links to al Haramain and KOMPAK. He was a trained cameraman—indeed, he had applied to Al Jezeera in Jakarta for a job, but was turned down. Reda had 18 videos of training camps and sectarian conflict in his possession, three of which had been edited professionally for distribution. Reda was engaged in similar activities for Al Qaeda in Bosnia in the late 1990s, where he was believed to be the producer of an Al Qaeda documentary "The Martyrs of Bosnia". In Indonesia, his videos were produced under the pseudonymn Yayasan Aman (Peace Foundation) and were important propaganda tools for recruitment and fund-raising for Al Qaeda operations. Other videos were produced by Aris Munadar, who is an official of Al Haramain, and a right hand man of Abu Bakar Ba'asyir.

Front and Absentee Companies

The modus operendi of so many Al Qaeda cells was that they are given some seed money and additional funds, but most cells are expected to become self-sustaining over time. Southeast Asia, the fastest growing region in the world in the early to mid-1990s, had business-friendly environments and encouraged the proliferation of firms and general trading companies. Two different types of firms were established. The most important were front companies—corporate entities that were established with minimal capital investment, that generated few (if any) profits, and whose primary purpose was to purchase materials or mask other aspects of terrorist operations. The second type of company was those that were given Al Qaeda funds for start-up capitalization, but whose primary purpose was for revenue generation. Front companies are a serious challenge. The real problem for the Americans is not freezing bank accounts but perhaps stopping the unknown number of apparently legitimate businesses set up to move money around the globe to terrorists.

The most important front companies were established by JI's Malaysian cell. Malaysia had a very business friendly environment in the late 1980s and 1990s and encouraged investment. In the mid-1990s, Malaysia began to re-orient its foreign policy away from its ASEAN-centric position and began to embrace a more "pro-Muslim" foreign policy. To that end, it encouraged foreign investment, trade and tourism with the Middle East. At the same time, Malaysia emerged as an international centre of Islamic banking. Indeed, one of the mitigating factors when the Asian economic crisis hit Malaysia in 1997 was the continued flow of Middle Eastern capital through its banking system.

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Al Qaeda front companies were established at a rate of more than one a year in Malaysian between 1993 and 1996. Most had overlapping board members. Green Laboratory Medicine was established on 6 October 1993. Its director was Yazid Sufaat, a former Malaysian army captain who studied bio-chemistry at California State University in the 1980s. Upon his return to Malaysia, he was reproached by his family for his loss of Islamic values while abroad, and began attending prayer sessions where he came into contact with a militant preacher, Riduan Isamuddin, aka Hambali. Sufaat was sent to Pakistan for religious training when he was recruited into Al Qaeda/JI. In June 2001, Sufaat travelled to Afghanistan where he was trained by Al Qaeda. He was arrested in mid-September 2001, when he tried to return to Malaysia from Afghanistan. This firm was instructed to purchase 21 tons of ammonium nitrate to be used in terrorist attacks in Singapore.

Konsojaya, established in 1994, was a trading company that ostensibly exported Malaysian palm oil to Afghanistan and imported honey from Sudan and Yemen. The firm was capitalized with RM100,000, and 5,998 of the 6,000 shares were controlled by Wali Khan Amin Shah and Medhat Abdul Salam Shabana. Konsojaya's original board of directors also included Hambali and his wife, Noralwizah Lee Binti Abdullah. At a later date, a new five-member board was elected, and did not include Hambali, his wife or Amein Mohammed. The company played an important role in Ramzi Yousef and Khalid Sheikh Mohammed's Oplan Bojinka, an attempt to simultaneously destroy 11 US jetliners over the Pacific in 1995, as a front for moving money and purchasing chemicals and equipment for bomb-making.[49] Ramzi Yousef and Wali Khan Amin Shah established another shell company, the Bermuda Trading Company, in 1994, as a cover to import chemicals for bomb-making.

Infocus Technology was established on 13 July 1995, also by Yazid Sufaat. Infocus Technology hired Zacarias Moussaoui, the alleged 20th hijacker in the September 11 attacks, as a marketing consultant and was able to get him a visa to the United States. Infocus was to pay Moussaoui a lump sum of US$35,000 and then a monthly stipend of US$2,500 to pay for his flight training in the United States.[50] Yazid Sufaat has told Malaysian investigators that the money was never paid but there is no evidence to support or counter his statement.

Another front company was Secure Valley, established on 4 October 1996. Little is known about the purpose or operations of this general trading company, but it had many of the same boards of directors as the other three JI-linked firms.

In addition to these, there were several other JI-linked front companies. Faiz bin Abu Bakar Bafana, according to the Canadian

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Security and Intelligence Service, owned a security company in Kuala Lumpur, MNZ Associates, at whose premises many key meetings took place.[51] Ibrahim bin Maidin, the spiritual leader of the Singapore JI cell, had attempted to establish several small chemical fertilizer import corporations, obviously as a legal cover to import ammonium nitrate.

Another JI-firm was uncovered in February 2003, with the arrest of Abdul Manaf Kasmuri, a former Malaysian army colonel, who headed a United Nations peacekeeping operation in Bosnia in the mid-1990s. Kasmuri was a high-flyer in the military. He attended Malaysia's Royal Military College and then Sandhurst, the British Military Academy where he won three batons of honour on graduation, including best foreign student. Kasmuri led the Bosnian peacekeeping operation with distinction until he became disenchanted with the United Nation's failure to protect the Bosnian Muslim community, especially after the massacres following the Serbian invasions of the six UN-designated "safe havens". Kasmuri began to support the Bosnian army's 7th and 9th Battalions which were comprised of foreign *jihadis*, many of whom were Al Qaeda members and veterans of the Mujiheddin in Afghanistan. When he became too close to them, he was recalled and forced to take early retirement in 1995. He returned to Bosnia and became involved in aid work, when he was recruited into Al Qaeda. He spent time in Afghanistan, posing as a Filipino. He returned to Malaysia, and though by that time he was wanted by Malaysian police, he became the human resources manager for an Islamic financial institution Koperasi Belia Islam,[52] based in Kuala Lumpur, that has close ties with the Islamic Youth Movement (ABIM) founded by jailed former deputy prime minister Anwar Ibrahim. Kasmuri was also significantly involved in a JI-linked company called Excel Setia, as a shareholder and director.

Excel Setia was a privately owned general trading company that was run out of the off-shore tax haven of Labuan. Two of the other four directors/shareholders were senior JI officials, Zulkifli Marzuki and Faiz bin Abu Bakar Bafana, both of whom are now under detention, one in Malaysia and one in Singapore.[53] Zulkifli Marzuki, an accountant, was the auditor for most of the JI related companies including those set up by Yazid Suffaat, Infocus Technology and Green Laboratory Medicine.

In addition, there are ongoing investigations of between three to six general trading companies in Bangkok that have been linked to firms on the UN list of designated terrorist-supporting organizations. These include three Middle Eastern general trading companies that have had offices in Thailand since 1997, including Al Jallil Trading Co. Ltd, Al Amanah Enterprise Co. Ltd, and Sidco Co. Ltd. These three firms were raided by Thai intelligence officials following joint investigations with U.S. and Israeli intelligence officials.[54]

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Front companies were not the only businesses established by Jemaah Islamiya. There are also cases in which JI members established businesses, received contracts and businesses from JI supporters and then plowed the proceeds back into the organization. According to the Singapore Government's White Paper on JI, "All JI-run businesses had to contribute 10% of their total earnings to the group. This money was to be channeled into the JI's special fund called *Infaq Fisbilillah* (Contributions for the Islamic cause or *jihad* fund)."[55]

A prime example is the Al Risalah Trading Company of Malaysia. The Al Risalah Trading Company was established by the son-in-law of Abdullah Sungkar, Feri Muchlis bin Abdul Halim, with some RM25,000 in startup capital. Halim, a 46-year old, was an Indonesian with permanent residency in Malaysia. His firm obtained a coveted licence that allowed it to tender for government contracts. It had been awarded contracts to install water pipes in Selangor, to provide stationary for a school, and had just received a contract to build two schools in Selangor.[56] In the first two cases, the person who accepted the tender was a suspected member of Jemaah Islamiya; and both have been detained under Malaysia's draconian *Internal Security Act*. Halim was arrested in 17 April 2002 for suspected involvement in JI and the Kumpulan Mujiheddin Malaysia (KMM). The KMM was founded on 12 October 1995 by Zainon Ismail.[57] From 1999 to his arrest in May 2001, Nik Adli Nik Aziz, the son of PAS' spiritual leader Nik Aziz Nik Mat, led the KMM. Both Zainon Ismail and Nik Adli had fought against the Soviets and had returned to found their own *madrasah* and the militant wing that was closely linked to the Jemaah Islamiya.

The Mujiheddin Council of Indonesia, considered the public face of the Jemaah Islamiya, has several Indonesian-based publishing houses and video production companies, such as Front Line Publishers. The most important of these is the Hidyatullah press based in Jogyakarta, which is run by Irfan S. Awwas, Abu Bakar Ba'asyir's right hand man and the Director of the MMI.

Hawala and Gold Shops

The primary conduit for terrorist financial transfers is through the unregulated remittance system, known as *hawala*. The Chinese have had a system known as *feiqian*, literally "flying money", in place to facilitate commerce for thousands of years. In the Middle East, this informal banking system is known as the *hawala* or "trust" system, in which no money is ever wired, nor are names or accounts of either senders or receivers used, nor are records kept. With commissions of only 1–2 per cent, compared to average bank transfer fees of up to 15 per cent, *hawala* is the transfer system of choice. In Pakistan, for

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example, of the US$6 billion in foreign exchange that is remitted to the country annually, only US$1.2 billion arrives through the banking system.[58] Although the U.S. Treasury Department froze the assets of some 62 subsidiary and affiliated organizations of two of the world's largest *hawala* networks, Al-Barakat and Al-Taqwa, in November 2001, most *hawala* operators are so small as to go unrecognized. As one Singaporean *hawaladar* said, "My company does not question the amount or the purpose of sending the money. They trust us, and I don't ask questions. Why would I, when I have a licence to operate."[59]

Hawala is used extensively in Malaysia, Singapore and the Philippines, which has considerable financial exchanges due to the 1.4 million Filipino guest workers in the Middle East. A World Bank report dated 30 December 2002, estimated that the share of *hawala* transfers as percentage of total private transfers in 2000 was, 5 per cent for the Philippines, 21 per cent for Indonesia and 50 per cent for Pakistan.[60]

In downtown Manila's Ermita district there are blocks upon blocks of *hawala* shops. Over US$6 billion is remitted annually to the Philippines, mainly through the *hawala* system. Overseas workers, who represent 10 per cent of the labour force, have literally kept the Philippine economy afloat in the past two decades. In 2000, they remitted some US$6 billion, and in 2001, US$5.4 billion.[61] Although overall remittances from overseas foreign workers dropped by 13 per cent in the first half of 2001, compared to the first half of 2000, from US$3.1 billion to $2.7 billion, receipts from the Middle East actually rose in that period, from US$270 million to US$352 million, up 30.3 per cent.[62] The Philippines has a weak banking sector, with little regulatory oversight, especially over the flow of remittances, so it is easy to make fund transfers.

Wali Khan Amin Shah, Khalid Sheikh Mohammed and Ramzi Yousef, used an account of the Al Ansari Exchange Establishment (AAEE) to transfer funds for Oplan Bojinka. The AAEE, (sometimes known as the Reza al-Ansari Exchange), is based in Abu Dhabi in the United Arab Emirates, and had extensive ties with money launderers and banks across Europe and the Middle East, including two other major *hawaladars*, A.M. Shouman and Sons and Al Reems Exchange. The AAEE was used extensively by the Middle Eastern based terrorist organizations, Hamas and Hizbullah. Hamas used an account belonging to an UAE-based charity "Human Appeal International". The United Arab Emirates was a favorite hub of terrorist funding as it had lax financial reporting and banks and financial institutions did not have to report cash deposits. The AAEE provided legitimate exchange services, in particular for Philippine overseas foreign workers in the Middle East. In one advertisement in the *Gulf News*, the AAEE offer "fast and

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reliable door to door remittance service to the Philippines through an excellent arrangement with the Bank of the Philippine Islands".[63]

Hawala become even more important in countries that have currency controls. For example, in late 1998, when the Malaysian government imposed capital controls and stopped the conversion of the ringgit in order to prevent capital flight, the *hawala* system was one of the few sources of foreign exchange.[64] Likewise, after the Philippines abolished exchange controls in 1992, remittances through the legal and regulated banking sector quadrupled.[65]

The economies in the region are so dependent on *hawala* networks that there is a reluctance to crack down on them. Even if they did, one regional intelligence official conceded, that it would simply drive the brokers underground, making monitoring and regulation even more problematic, though they concede that it is the primary way that money moves around the region and from the Middle East.

Donations from JI Members (zakat and infaq)

Several JI members were quite wealthy and gave considerable amounts to the organization. Faiz bin Abu Bakar Bafana, a Malaysian businessman and former Singaporean, was a key aid to Hambali. He travelled to Afghanistan in 1999 to meet with Al Qaeda leaders to discuss operations in Southeast Asia. Bafana ran a large construction firm in Malaysia, Marebina, and was an important financial backer of the JI, becoming a member of its regional *shura*.[66] As one regional intelligence official said, "Faiz was pretty well-off, his companies won decent sized contracts and his personal donations [to Jemaah Islamiya] were pretty large".[67] This tended to be the exception, and most JI members lived fairly humble lives.

All JI cells were expected to be self-sufficient, but clearly the Singapore cell had a primary role in fund-raising for the group, owing to the relative wealth of its members. According to detained JI personnel, members of the Singapore JI cell donated 2 per cent of their salaries to the JI in the early 1990s; and 5 per cent by the end of the decade. Singaporean investigators believed that 25 per cent of the funds raised were given to the Malaysian JI cell, and 25 per cent to the Indonesian cell. The transfers were conducted by individuals. The remaining funds were used by the Singaporean *fiah* for equipment, operations, and overseas training, as well as donations to the Taliban regime in Afghanistan.[68] The Malaysian and Indonesian cells, likewise, required their members to make both *zakat* and *infaq* contributions to the movement, though they were able to contribute relatively less.

In addition for fund-raising for the JI, the Singaporean JI cell was also very involved in fund-raising for the Moro Islamic Liberation Front

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(MILF) which was waging a secessionist war in the Southern Philippines. The MILF, which had long-standing ties to Al Qaeda, provided training facilities and hosted Al Qaeda trainers at its base Camp Abu Bakar to instruct JI operatives. These trainers included Omar al-Faruq, Omar al-Hadrani, al-Mughira al-Gaza'iri and Fathur Rohman al-Ghozi. Of the 36 people detained in Singapore between December 2001 to August 2002, 4 were not found to be JI members, but active supporters and fund-raisers for the MILF. For example, Husin Abdul Aziz, a 52-year old Singaporean who had trained at an MILF camp, not only donated US$20,000 of his own money to the movement, but raised in Singapore an additional US$20,000 for the MILF.[69] Another person detained in August 2002, Habibullah Hameed, also raised US$40,000 over many years for the MILF.

Contributions from Outsiders

Again, this is impossible to quantify without access to detailed financial records, if they exist at all. It is clear that groups such as the Laskar Jundullah, Laskar Mujiheddin and the MMI were quite able to solicit donations from supporters and sympathizers, though perhaps not members. For example, Omar al-Faruq confessed that he worked closely with a Muslim-Chinese from Singapore, al-Bukhari, who was an important financier for the group though he is not known to be a member.

Individuals, such as Fuad Bawazir, are suspected of using the Komite Indonesia Untuk Solidaritas Dunia Islam [the Indonesian Committee for Solidarity with the Muslim World (KISDI)] and United Action Group of Indonesian Muslim Students (KAMMI) as vehicles to transfer large amounts of elite Indonesian money to small radical groups, such as Dwikarna's Laskar Jundullah. KISDI was established in the early 1990s, by a firebrand Wahhabi preacher, Ahmad Soemargono, with alleged covert government support. KISDI was closely connected with a military think-tank, the Center for Policy and Development Studies, which was the "headquarters" of the military's "green faction". A prominent member of this group was Lt Gen. Prabowo Subianto, Suharto's son-in-law.

Another important source of funds for JI were donations by Indonesians living overseas, in particular those in Australia. In the 1990s, Abdullah Sungkar and Abu Bakar Ba'asyir made a total of 11 trips to Australia where they preached before audiences of Indonesian exiles.[70] They solicited donations for their sermons and sold audio recordings. Although there is considerable evidence that JI cells hoped to expand to Australia, an area they called Mantiqi IV, it is clear that their real priority for Australia was in fund-raising.

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Al Qaeda Investments and Accounts

An important source of funding is likely Al Qaeda investments and bank accounts long established in the region. Osama bin Laden's family business, the Bin Laden Group, had extensive holdings and investments in Malaysia and received some of the tenders to build the north–south highway, amongst other things. Although he was disowned by his family, bin Laden, himself a businessman and financier, would not have been unaware of the investment climate or the Islamic banking sector there—Malaysia is one of the world's pre-eminent Islamic banking centres.[71] Jamal al-Fadl, a former member of Al Qaeda and one of bin Laden's top financial officials, who later turned himself in to the Americans and testified against Ramzi Yousef and in the West Africa embassy bombings case, stated that bin Laden frequently used Islamic banks in Malaysia.[72]

Islamic banks, themselves, are not conspiratorial funders of terrorist acts. It is that many Islamic banks happen to be in countries with weak financial oversight and lax supervision. Their religious nature also accords them a greater degree of autonomy. As Islamic banks were established to circumvent the practice of paying and charging interest, they often conmingle funds to create investment vehicles, "creating ready opportunities for anonymous money transfers and settlements".[73]

Brunei, which hitherto has avoided much of the terrorism-related problems facing its neighbours, is a cause for alarm on the financial front. In an attempt to diversify its economy, the Brunei International Finance Center was established in July 2000 to tap the lucrative niche of Islamic banking. Yet the country has a weak legal and regulatory framework. Brunei passed a money laundering ordinance in 2000 and has tried to improve its oversight capacity in the past few years, but it is clearly one of the less regulated financial markets in the region. To date, no terrorist-linked funding has been frozen in Brunei, but that is not to say that the funds are not well hidden in front accounts. Without considerably more financial oversight capacity, Brunei has the capacity to be an important financial centre for Al Qaeda, much the way that the network has used the poorly regulated United Arab Emirates.

In addition to Brunei, there is also concern over Malaysia's own off-shore banking centre on Labuan Island. In order to make Malaysia more attractive as an international off-shore banking center, Malaysia established the Labuan Offshore Financial Centre on 1 October 1990. Labuan's financial sector is subject to less stringent oversight, disclosure, and accounting rules, and has been of major concern to law enforcement officials since its founding, despite the establishment in 1996 of the Labuan Offshore Financial Services Authority to provide greater oversight.

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Across the region, with the exception of Singapore, banking and financial sectors are poorly regulated, especially the fairly new Islamic banks, which facilitates transfers and money laundering.

It should be noted that not a single bank account linked to Al Qaeda had been frozen in Southeast Asia by March 2003. That is not to say that there are no Al Qaeda accounts, but more likely that they are disguised. Al Qaeda had years of operation around the world when few governments or security services were aware of them and their activities. They have had years to hide and launder their accounts and corporate holdings. It is absolutely inconceivable that there are no Al Qaeda investments or holdings in the region.

Petty Crime, Racketeering, Extortion and Kidnapping

We also cannot overlook the nexus of terrorism and transnational crime. Because of Thailand's place in the international drug trade, there is a culture of money laundering, corruption and operating in the shadows. According to the Thai government some 100 billion baht—roughly US$2.2 billion—in drug money is laundered annually through financial institutions in Thailand. It is estimated that some 40 per cent of Thailand's GDP is underground, unregulated and untaxed. Indeed, the global scope of money laundering is thought to be as high as US$2 trillion annually, or 2.5 per cent of global GDP. The Philippines and Indonesia, despite anti-money laundering bills passed in 2001 and 2003, respectively, both remain on the OECD's Financial Action Task Force's black list.

Another window into Al Qaeda financing appeared in the summer of 2002. Omar Shishani, a naturalized U.S. citizen from Jordan, was arrested on 17 July 2002 when he tried to enter the United States from Indonesia with some US$12 million in high quality forged bank cheques.[74] Shishani has denied any wrong-doing, asserting that he is a financial broker, putting together commercial borrowers with private lenders, and that he was in Indonesia for two months on business. Both the quality of the forgeries and the amount that he was caught with greatly alarmed U.S. officials who noted that the 11 September attacks cost less than US$500,000.[75]

Large-scale money laundering operations may be important to Al Qaeda as a whole, but they have limited utility to the JI, which tends to engages in smaller-scale crime. The first break authorities had in uncovering the Jemaah Islamiya network came months before September 11 and the beginning of the war on terror. The Malaysians were on heightened alert already following the 18 May 2001 botched robbery of Southern Bank in Petaling Jaya. Although two suspects were killed, one survived and his interrogation led to the arrest of nine others; this was

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what led authorities to begin uncovering the JI-linked Kumpulan Mujiheddin Malaysia.

The cell that was responsible for the Bali attack funded itself in part through the robbery of jewellery shops. Four of the sixteen people arrested in conjunction with the Bali attack had robbed the Elita Gold Store to help fund the operation. Imam Samudra, one of the leaders of the Bali plot, was also involved in credit card theft to fund his operations. Samudra purchased items online, especially jewelry, using stolen credit card numbers and then resold them.[76] The Indonesian investigators for the Bali case later stated that, in the course of their investigation, they broke up a plot to blow up a bank and had arrested 13 suspects.[77] It seems odd that the terrorists would put their entire operations in jeopardy by engaging in risky and low-yield criminal ventures, but they continue to do so.

Thailand is a centre of much JI/Al Qaeda financial operations. In December 2001, Thai police with the assistance of the CIA broke up two counterfeiting rings run by Dawood in Bangkok. In March 2002, Thai authorities arrested 25 Middle Eastern men suspected of laundering Al Qaeda funds in the Kingdom. In addition, several of the suspects were charged with forging travel documents, passports and visas, for Al Qaeda members.[78] Two small radical Muslim groups in Southern Thailand, the Wae Ka Raeh (WKR) and the Guragan Mujiheddin Islam Pattani, were brought into an enlarged Jemaah Islamiya organization, the Rabitatul Mujiheddin. The head of the WKR fought with the Mujiheddin in Afghanistan. For the most part, though, they are criminal gangs. The WKR is thought to earn 10 million baht (roughly US$225,000) a year in contract killings and "enforcement".[79] Both Thai groups were also very involved in gun-running from the arms markets along the Thai-Cambodian and the Thai-Burmese borders to Southern Thailand, where weapons were purchased by Acehnese GAM rebels and MILF officials, as well as criminal gangs.

The Abu Sayyaf Group was founded in 1991 by Abdurajak Janjalani with seed money directly from Al Qaeda's coffers, and sustained throughout the early 1990s by funds skimmed from Al Qaeda charities. By 1995 it had apparently lost much of its money when bin Laden's brother-in-law Mohammed Jamal Khalifa (Al Qaeda's financial conduit into the region) was expelled from the Philippines. In December 1998, Janjalani was killed in a shootout with police forces, and the group lost much of their ideological fervour and mission. Kidnapping became the trademark of the Abu Sayyaf group in the southern Philippines. From 1996 to 2000, Abu Sayyaf engaged in some 266 terrorist activities. During this time, estimates of Abu Sayyaf's manpower and firepower by Philippine intelligence grew by 14 per cent annually. According to

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a Basilan politician, "It was easier to deal with them when they had a single leader—and an ideology. Now, these guys are in it for the money, and there's no stopping them."[80] The demands for US$1 million ransom per hostage led many to consider the Abu Sayyaf as nothing more than a criminal menace rather than a secessionist insurgency with legitimate grievances. As the Philippine National Security Advisor Roilo Golez said, "We have no evidence that Abu Sayyaf has gotten financing from bin Laden recently. Otherwise they would not have to resort to kidnapping."[81] One Abu Sayyaf defector said that he quit the movement "because the group lost its original reason for being. The activities were not for Islam but for personal gratification. We abducted people not any more for the cause of Islam but for money".[82] In addition to kidnapping, the group engages in extortion, taxes from peasants, fishermen, coconut growers, and businessmen. Abu Sayyaf also engages in marijuana cultivation, and on 24 July 1999 PNP forces destroyed some 70,000 marijuana plants worth P20 million (US$10 million).[83]

Combating Terrorist Funding

The OECD's Financial Action Task Force, has come up with eight recommendations for states to establish a baseline international standard for combating terrorist financing:

- ratfying and implementing UN instruments;
- criminalizing the financing of terrorism and associated money laundering;
- freezing and confiscating terrorist assets;
- reporting suspicious transactions related to terrorism;
- formalizing greater international cooperation through treaties of other agreements;
- licensing and registering businesses engaged in alternative forms of remittances (*hawala*);
- requiring accurate and meaningful originator data for wire transfers; and
- reviewing the adequacy of laws regulating non-profit organizations.

There has been some attempt to forge a multilateral solution to ending terrorist funding in Southeast Asia, but multilateralism has been weak and inconsistent. For example, only six Association of Southeast Asian Nations (ASEAN) states have signed the International Convention for the Suppression of the Financing of Terrorism (1999), while only three have ratified it. All ASEAN states endorsed the UN Security Resolution (1373), but have implemented the resolution to varying degrees.

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International Convention for the Suppression of the Financing of Terrorism (1999)

State	*Signed*	*Ratified*
Brunei	—	4 December 2002
Cambodia	11 November 2001	—
Indonesia	24 September 2001	—
Laos	—	—
Malaysia	—	—
Myanmar	12 November 2001	—
Philippines	16 November 2001	—
Singapore	18 December 2001	30 December 2002
Thailand	18 December 2001	—
Vietnam	—	25 September 2002

ASEAN has made some attempts at multilateral solutions for combating terrorist funding. ASEAN hosted the Regional Conference on Combating Money-Laundering and Terrorist Financing in Bali in December 2002. The United States and Malaysia co-hosted the ASEAN Regional Forum Workshop on Financial Measures Against Terrorism in March 2002. In addition, in January 2003, the United States and Singapore co-hosted a conference aimed at choking terrorist funding.

Even the American effort has been negligible. The United States has added a few Southeast Asian terrorist suspects and companies to its Executive Order 13224: Al Haramain Islamic Foundation (11 March 2002), Jemaah Islamiya (23 October 2002), Abu Jibril and Hambali (24 January 2003). But this barely scratches the surface of Al Qaeda's financial operations in the region. There is also an issue of timeliness: despite being a wanted fugitive since mid-2000, and named as a leader of the JI/KMM since mid-2001, Hambali's assets were only frozen on 29 January 2003. The JI, itself, was only listed as a terrorist organization in mid-October 2002, eleven days after the Bali attack.

Much of the problem in designating individuals and companies is not in identifying them, but in the bureaucratic politics over what to do once the funders are identified. For example, in early 2003, the U.S. Department of the Treasury's Office of Foreign Asset Control drew up a list of 300 individuals, charities and corporations in Southeast Asia believed to be funding Al Qaeda and Jemaah Islamiya operations. Due to inter-agency politics and conflicting objectives, the list was pared down to 18 individuals and 10 companies. But even at the time of writing in early April 2003, the list was still unannounced due to diplomatic and bureaucratic competition over resources and missions.

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Although the Treasury Department wanted to include as many of the 300 as possible, diplomats from the State Department feared the diplomatic backlash and overall efficacy of such a mass designation. CIA officials wanted the known fronts to remain operating so that they could better monitor them and the associated individuals. The CIA also seemed more concerned that terrorists would be driven further underground and simply establish new funding mechanisms and companies that would have to be uncovered. As one U.S. official said: "Most of the really sensitive names have been dropped, so it won't have the kind of impact that the full 300 would have, though there'll still be a few surprises."[84]

The real problem with multilateral efforts is that successful multilateralism must be built upon the foundation of strong and effective domestic legislation and enforcement capacity. Both are lacking. The regulatory agencies around the region, with the exception of Singapore, are hampered by a lack of resources, trained staff, and a weak regulatory framework. Only two states in the region, Thailand and Singapore, are members of the Egmont Group, states with Financial Intelligence Units. Not all states in Southeast Asia have even criminalized money laundering or terrorist funding.

The Philippine's anti-money laundering law passed in late 2001 was announced touted as "an intensified campaign to prevent the use of our financial institutions as conduits for the finances of international terrorists".[85] This law will have little efficacy for stemming terrorist uses of Filipino financial institutions. For one thing, the original bill was watered down by legislators. The committee that drafted the law proposed setting the threshold at US$20,000, already twice the American limit of US$10,000. Yet the Philippine Congress quadrupled the amount, making it a crime to transact amounts greater than US$80,000 (4 million pesos)—but most terrorist wire transfers are small amounts through the unregulated remittance systems.[86] When the OECD's FATF kept the Philippines on their list of "non-cooperating countries who have made slow progress in fighting money laundering",[87] the Philippine government amended the law, to bring it more in line with international standards. The law also does not regulate the *hawala* system of money transfers that are the preferred financial mechanisms for terrorist cells that do not require vast sums of money for their operations.

Indonesia's initial lack of political resolve to fight the war on terror has also been seen in the financial front. Although the government pledged to freeze the accounts of any of the named individuals or organizations with suspected terrorist links that was issued by the Bush administration, Indonesia failed to ratify the UN Security Council Resolution 1373 on the Suppression of the Financing of Terrorism,

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issuing a Presidential Decree enabling it to access and freeze bank accounts of suspected terrorists instead.[88] In April 2002, the parliament passed a law on money laundering. Until that point, the government was unable to freeze accounts unless the "owner is officially a suspect or proven guilty in a criminal case".[89] Yet, to date no assets have been frozen. Many blame not just a weak commitment, but the unregulated and corrupt banking sector itself.[90]

Similarly, that there are no assets belonging to terrorist organizations in Indonesia is unlikely. Indonesia, with its weak and unregulated banking sector, corruptible regulators, and endemic corruption has long been a haven for money laundering. Despite new anti-money laundering laws passed in Indonesia in 2002, there are huge loopholes in them, and even if accounts linked to terrorist organizations were discovered, "it would take weeks to close them" complained one U.S. official to me. On 31 January 2003 the Minister of Finance signed a decree that required non-bank financial institutions to report suspicious financial behaviour and enact anti-money laundering regulations.[91] Indonesia, like the Philippines, has lobbied the FATF to be taken off the blacklist.

Thailand implemented a very robust anti-money laundering law in 1999 and established an anti-money laundering office that year. Though created to combat domestic corruption, these tools can be used against terrorist organizations. Yet Thailand's financial sector remains weak and highly unregulated. Strong on paper, it is weak on enforcement. Thai government officials acknowledged that more than US$2 billion in illicit drug money is laundered in Thailand each year. If this much is being laundered by drug syndicates, what is there to deter other criminal groups and terrorist organizations from doing the same? And there is little that the Thai government seems to be doing about this. There is now a law in the works that will make it illegal for individuals to bring in and take out more than US$10,000 in cash.[92]

Another country that is a real concern is Cambodia, which has neither laws nor enforcement capacity. A most unlikely channel of Al Qaeda funding was through the Om Al Qura Foundation in Phnom Penh. The Foundation, which has offices in Bosnia, Somalia and Southern Thailand, was ostensibly established to support Cambodia's small Muslim population, which had been decimated under the Khmer Rouge. There has been a steady inflow of Gulf money into charitable and religious projects in Cambodia as well as scholarships for the sizeable outflow of students to *madrasas* in the Middle East, Pakistan and Malaysia.[93]

According to Cambodian Ministry of Education documents, the Foundation funded and ran a school with approximately 580 students

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in Kendal province. Al Qaeda used the Om Al Qura foundation for "significant money transfers", believed to be several million dollars, for itself and for Jemaah Islamiya. On 28 May 2003, three foreign employees of the foundation were arrested for plotting to carry out terrorist attacks in Cambodia.[94] The operation, which was conducted with a tip from, and support of, U.S. intelligence officials, led to the deportation of 28 teachers and 22 dependents from the Al Mukara Islamic School.[95]

In addition to their role in money laundering, Cambodia officials said that the four Muslims arrested in Phnom Penh in May had US$50,000 from Al Qaeda to carry out an attack in the region. Moreover, Cambodia, emerged in the latter half of the 1990s as one of the most important money laundering centers for the Southeast Asian drug trade.

In addition to the problem of having a weak regulatory framework and enforcement capability, is a lack of political will. Several U.S. officials complained to me that the problem is that Southeast Asian governments have not taken the initiative to designate firms suspected of supporting terrorists. Any action only comes with the prodding of the U.S. government, which has diplomatic, political and geo-strategic complaints, not to mention a host of bureaucratic infighting and competing interests. What U.S. officials hope is that Southeast Asian governments will begin to take the lead in identifying and freezing the assets themselves. To that end, the United States is currently providing assistance for the training of financial investigators. This will have an effect in the long term, but in the short term America will maintain the initiative as there is almost no capacity in Southeast Asia. The problem with this of course is that the U.S. knowledge about terrorism in Southeast Asia is quite limited, though it has improved dramatically since September 11.

Conclusion

Although the war on terror has continued apace in Southeast Asia since the September 11 attacks on the United States, little has been done to disrupt the terrorist financial networks in Southeast Asia. Weak domestic legislation, resource-strapped financial investigative agencies, poor enforcement capacity, and a lack of political will have hampered this important front in the war on terror. To that end, Southeast Asia likely remains an important financial hub for the Al Qaeda organization and governments must be more proactive in their investigations and oversight.

First, all charities linked to Al Qaeda operations must be shut down immediately, regardless of diplomatic manoeuvering. Governments in the region must create a clearing house for all charities—

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both foreign and domestic—and introduce vigorous accounting requirements for them.

Second, corporate investigators must do a better job of tracking companies linked to Al Qaeda-Jemaah Islamiyah members and supporters. There need to be better relations between investigators and the private sector and "know your clients" provisions must be implemented.

Third, governments will have to improve the sharing of intelligence on individuals and funding mechanisms, as Al Qaeda has effectively learned to conceal its business and financial operations by working across multiple jurisdictions.

Disrupting the terrorist infrastructure and eliminating the space terrorists need to plan, train, and execute attacks must be given as much attention as the arrests of individual cell members. This will not be easy, as they have diversified these sources and taken advantage of legal loopholes and lax government oversight and enforcement.[96]

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92. "$4b in Drug Money Laundered Annually", *Straits Times*, 10 November 2001.
93. Seth Mydans, "U.S. Fears Islamic Militancy Could Emerge in Cambodia", *New York Times*, 22 December 2002.
94. Already the threat of terrorism in the predominantly Buddhist nation was high. On the basis of Omar Al-Faruq's confession and the confession of Mohammed Mansour Jabarah, both in U.S. custody, U.S. embassies in Malaysia, Indonesia, Cambodia and Vietnam were shut down for the anniversary of the 11 September attacks. There was also concern that the ASEAN Foreign Ministers' Meeting, to be held in Phnom Penh in June 2003, would be targeted. Later a fourth individual, a Cambodian, was arrested. Ratnesar, "Confessions of an Al Qaeda Terrorist"; Raymond Bonner, "Plan to Attack Embassies in South Asia Cited for Terror Alert," *NYT*, 11 September 2002.
95. The Egyptian is Esam Mohamid Khadir Ali, and the two Thai Muslims are Haji Thiming Abdul Azi and Muhammad Jalludin Mading. The teachers hailed from Yemen, Sudan, Egypt, Nigeria, Pakistan and Thailand. See, Ker Munthit, "3 Muslim Foreigners Arrested in Cambodia," AP, 28 May 2003; Ek Madra, "Cambodia Cracks Down on Foreign Muslims," Reuters, 28 May 2003.
96. I would like to thank a number of individuals who have requested that their names not be published. They provided me invaluable insight and suggestions. I would also like to thank the two anonymous referees for their helpful comments and suggestions.

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Blood, Sweat and *Jihad*: The Radicalization of the Political Discourse of the Pan-Malaysian Islamic Party (PAS) from 1982 Onwards

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This article looks at the radicalization of the political discourse and strategies of the Pan-Malaysian Islamic Party (PAS) from the early 1980s to the present. It argues that the radicalization of the discourse of PAS has to be understood in the context of the realities of Malaysian politics in the 1980s and 1990s, and how PAS was forced on the defensive thanks to the Malaysian state's own aggressive Islamization policy as well as variable factors from abroad such as the Iranian revolution. This article therefore examines how and why PAS made the transition from being a moderate Islamist-nationalist party in the 1960s and 1970s to the more radical and fundamentalist party that it is today. It concludes that the development of PAS then was very much part of a greater global current that was sweeping the Muslim world as a whole.

How Islamist politics in Malaysia leapt to a different register

Kemenangan Islam tidak akan datang dengan sendirinya. Allah telah menentukan bahawa kejayaan dalam kehidupan dunia adalah hasil jihad yang berterusan.[1]

Ustaz Yusof Rawa,
President of PAS, 29 April 1983

After the Malaysian elections of December 1999, PAS emerged as the strongest opposition party in the country with the largest number of

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opposition seats in Parliament (27). For the first time, the Islamist opposition party had come to the forefront of the combined opposition forces in Malaysia, reducing the secular-leftist Democratic Action Party (DAP) to secondary position. It was also the first time that the discourse of the opposition front had shifted to a religio-political register—with the debate on the "Islamic state" issue and the implementation of *shariah* law being high on the list of priorities—whereas opposition politics prior to 1999 was marked by a lack of consensus and a variety of positions (minority rights, the national language issue) taken up by the respective parties outside the ruling coalition.

PAS had managed to stage a spectacular victory, though the overall 1999 election results were still in keeping with previous victories won by the Barisan Nasional (BN) coalition. PAS's hold on the north of the Malay peninsula seemed permanent, with two states, Kelantan and Trengganu, under its control. PAS had also won major victories in the states of Kedah, Perak, Perlis and Selangor, and speculation was rife about the possibility of the Islamist party breaking UMNO's hegemonic hold on the Malay-Muslim constituency and coming to power in the next elections (scheduled for late 2003 or early 2004).

However, PAS was not allowed the time and opportunity to enjoy the fruit of its victory. Soon after, the country was gripped by the fear of "militant Islamist terror networks" as the UMNO/BN-led federal government began to crack down on a number of alleged "militant networks and cells" operating all over the country. In 2000, federal authorities apprehended members of an obscure and little-known cult group calling itself the al-Maunah movement, which it claimed was set up with the intention of toppling the government and introducing an Islamic state in Malaysia. Shortly after, members of the so-called "jihad gang" were also rounded up by the Malaysian police. Though PAS was not directly blamed for any of the actions of these organizations, the mainstream media did present a somewhat sensationalized picture of PAS (or some of its members at least) working hand-in-glove with these underground movements.

The terrorist attacks on the United States on 11 September 2001 altered the political fortunes of PAS for good. Worldwide the fear of "Islamic militancy" was used by a number of governments to demonize Islamist movements and parties in their own countries, and PAS was caught in the net as well. During the American-led attacks on Afghanistan that followed, PAS responded by calling for a *jihad* against the West.[2] Some PAS leaders even went as far as saying that they would not stop their followers from going to Afghanistan to fight alongside the Taliban troops opposed to the United States.

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PAS support for Osama bin Laden, al Qaeda and the Taliban regime incurred a heavy political cost. Unaware of (or oblivious to) the negative image that it would create for itself at home and abroad, PAS's decision to declare a *jihad* against the West was the biggest own-goal scored by the party in the past few years. By publicly voicing its stand in favour of bin Laden and the Taliban, the party alienated itself from vast sections of the local and international community, and pushed itself back to the margins of the local political scene.

The situation was exploited to the full by the Mahathir administration, which saw it as the best justification for its own policies vis-à-vis the local Islamist opposition. Henceforth, the Malaysian government's crack down on Islamist cells and networks—both real and imagined—would receive less criticism from foreign and local observers. By presenting itself as the face of moderate and progressive Islam at work, the Mahathir government managed to out-flank the Islamist opposition and reposition itself successfully.

PAS seems to be trying hard to regain the ground that it won, and lost, after the 1999 elections. The party's image has been seriously damaged thanks to the rhetorical pyrotechnics of some of its more radical leaders, and compromised by other factors in the international scene beyond its control.

The central question remains: why did PAS decide to support bin Laden, al Qaeda and other radical Islamist movements abroad? Is PAS a modernist Islamist party with democratic ambitions or is it a radical militant threat disguised behind a cloak of political respectability? Could the party have evolved differently and taken a different turn? And what does the ascendancy of PAS tell us about the discursive and ideological shifts that have taken place in predominantly Muslim Malaysia and what does this augur for the country as a whole? One can only begin to answer these questions by looking at the party's political evolution and how it altered itself to become the vanguard of the Islamic revolution in Malaysia.

The Pan-Malaysian Islamic Party was formed in 1951, as a result of an internal split within the dominant United Malays National Organisation (UMNO) party. During the 1950s PAS was a weak and marginalized party. Its first leaders, Ahmad Fuad Hassan and Dr Abbas Elias, were themselves Western-educated professionals who were part of the British colonial administrative apparatus (Abbas was a doctor working within the British colonial medical services.) The party's performance during the early elections of the 1950s was pitiful. PAS failed to make an impact on the national political scene and could not win any significant support from the Malay-Muslims who still regarded UMNO as the natural choice of the Malays.

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However, PAS rose to new heights under the leadership of the radical nationalist and Islamist intellectual, Dr Burhanuddin al-Helmy, who led the party between 1959 to 1969. It was during his tenure that PAS developed a complex and dynamic ideology that combined progressive Islamism, nationalism and anti-colonialism. PAS was seen (then) as the closest thing to a Malay-Muslim Islamist-Leftist opposition party then. In 1959, under the leadership of Burhanuddin, PAS gained an unprecedented victory by winning control of the states of Kelantan and Trengganu for the first time. It was the first Islamic party in Asia to win power via democratic and constitutional means. Not even the Jama'at-e Islami of Pakistan or the Ikhwan'ul Muslimin of Egypt had managed such a feat.

During the 1970s, however, the gains made by PAS while it was under Burhanuddin were squandered when the party came under the leadership of Datuk Asri Muda. Asri was a staunch Malay ethno-nationalist and under his leadership PAS was transformed into a party that advocated exclusive Malay communitarian rights. Abandoning the discourse of progressive Islamism and anti-colonialism, Asri and the new leaders of PAS began to speak the language of Malay racial, cultural and political supremacy instead. This alienated PAS from the non-Malay minorities in the country. Under Asri, PAS also entered into a working relationship with UMNO and the parties of the Barisan National ruling coalition. But the BN experiment was a failure and PAS as a result lost control of its base, the state of Kelantan.

Thanks to the U-turns and compromises made by Asri in the 1970s, ordinary members of PAS looked elsewhere for alternatives. Many of them left the party and joined the Malaysian Islamic Youth Movement (ABIM) led by the Islamist student leader Anwar Ibrahim (who later left ABIM in 1982, joined UMNO and rose to become Deputy Prime Minister of Malaysia) or the neo-revivalist Sufi-inspired Darul Arqam movement led by the controversial Ustaz Ashaari Muhammad. Other PAS leaders looked abroad for models to emulate, and many of them looked to Pakistan (then under General Zia 'ul Haq) and Iran (under the rule of the Ayatollahs) as their examples. In 1982, the "Young Turks" faction within PAS mounted an internal party coup against Asri Muda and toppled him. This led to the rise of the so-called "*ulama* faction" of the party led by men like Yusof Rawa, Nik Aziz, Fadzil Noor, Hadi Awang and others who foregrounded the idea of the Islamist revolution under the leadership of the *ulama* as the new PAS ideology. During the 1980s and 1990s, PAS developed to become the most important Malay-Muslim opposition party in Malaysia.

In time, the Islamist party became the greatest threat to UMNO's grip on power and on several occasions the enmity and antagonism

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between the two parties led to violent confrontations that involved the state's security forces. That the contest between the two veteran Malay-Muslim parties could have come to a head in the last two decades of the twentieth century is hardly surprising considering the historical, cultural and political background. Two important factors came to play a major role in the changing image and identity of PAS: first, the Islamist revolutions abroad, particularly in Iran, and second, the Islamization race between UMNO and PAS at home.

The Iranian Factor

A major factor in the political struggle between PAS and UMNO was an event that took place thousands of miles away, in Iran. The Iranian revolution of 1979, led by Ayatollah Khomeini, sent shock waves throughout the world and marked a turning point in the Muslim world. Ayatollah Khomeini inspired and led a revolution which led to the fall of the Shah of Iran. Years of corrupt and inept rule at the hands of the Shah and living under the constant harassment and persecution of his detested SAVAK secret police (set up with the help of the Americans) had made the Shah so unpopular that his downfall was expected sooner than later.

Despite the problematic outcome of the Iranian revolution itself (many of its leaders like Ayatollah Shariatmadari were quickly disillusioned and were later themselves persecuted or forced to leave the country), the fact that it actually took place was enough to provide the Islamist movements of the world with a symbol of success. The world of Sunni Islam was amazed by the fact that the world's first Islamic revolution took place in Shia Iran, where the Shias had separated religion and politics for centuries. After coming to power, Khomeini and the *ulama* effectively repaired this historical break by declaring that Iran would henceforth be ruled under a supreme vice-regency of the jurists (*velayat-e fakih*) which in practical terms meant the creation of a clerical dictatorship with absolute (*mutlaq*) power for the first time.

The governments of Southeast Asia were perturbed by the latest developments in Iran. In Malaysia, Indonesia and the Philippines, dissident Islamist parties and movements were openly supporting the Iranian revolution and its underlying principles. The leadership of the ABIM in particular (then under Anwar Ibrahim) praised the Iranian revolutionaries for their commitment to Islam. In 1979, Anwar Ibrahim and other ABIM leaders visited Iran and met Ayatollah Khomeini. Upon his return from Iran, Anwar called for an "Iranian Liberation and Solidarity Day" to be held on 16 March 1979.

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Throughout the Islamic world, the socio-cultural and political impact of the Iranian revolution was profound. The Iranian revolution furnished the struggle of Sunni Islamist movements worldwide with renewed vigour and the tenor of their polemics and campaigns were heightened considerably. Islamist movements the world over redoubled their efforts to fight the twin world-devouring Satans (*jahan-khor*)—the Eastern and Western blocs—that were crushing the Muslims between them. So great was the impact of the Iranian revolution on the leaders of PAS of the late 1970s that they would continue to sing the praises of Ayatollah Khomeini up to the end of the second millennium.[3]

Fighting Islam with Islam: UMNO's State-Orchestrated Islamization

The other factor that contributed to the radicalization of PAS's internal politics and discourse was the accelerating Islamization race that was taking place in Malaysia itself, between UMNO and PAS.

The leaders of UMNO were not about to sit still and allow PAS to gain the upper hand in the discursive contest to define the meaning and content of Islam. Shortly after Mahathir Mohamad came to power as the fourth Prime Minister, the country witnessed the implementation of an UMNO-led state Islamization policy designed to promote and project UMNO's vision of Islam as a modern way of life, culture and government. No stone would be left unturned in the pursuit to redefine the meaning and essence of Islam itself, as UMNO sought to out-Islamize its nemesis PAS.

UMNO's brand of modernist and moderate Islam was based on a chain of equivalences that equated Islam with all that was positive in its eyes. Islam was equated with modernity, economic development, material progress, rationality and liberalism. (It is interesting to note that other values like democracy and human rights were not part of this chain of equivalences.) In the same way that PAS's oppositional dialectics framed a reversed chain of equivalences as its mirror opposite, UMNO's understanding of Islam was also framed against a negative chain of equivalences that equated PAS's Islam with obscurantism, extremism, fanaticism, intolerance, backwardness and militancy. This was the "wrong" version of Islam to which UMNO's Islam was the answer. The aim of the state's Islamization policy was to normalize and institutionalize the "right" version of Islam against the "wrong" version promoted by PAS, both in terms of behaviour as well as state policy.

To this end, the machinery of the state was directed towards an Islamization programme meant to eliminate discrepancies between different sites and sources of Islamic authority while outdoing the

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claims and promises of PAS and other Islamist groups in the country like ABIM.

In 1981 the UMNO General Assembly issued a resolution to the effect that the federal and state Islamic councils should enforce and defend the "purity of Islam". Following this demand the religious arm of the state bureaucracy was expanded as never before. New policies were introduced to safeguard Islam and the Muslim *ummah*. In 1981 the Pusat Islam began to identify various sects and groups that were said to be guilty of deviationist teachings (*ajaran sesat*). By 1982 the Prime Minister's office had more than 100 *ulama* working under it and the Ministry of Education had some 715 *ulama* on its payroll.[4] The Fourth Malaysia Plan (1981–86) also explicitly declared that henceforth Islam would play a major role in the development of the country (albeit at an inspirational level).

In the same year (1983) that Malaysia's International Islamic University (UIA) was launched, the Malaysian Islamic Bank (Bank Islam Malaysia) was opened by the government (on 1 July 1983). Bank Islam became the first bank in the country to offer regular banking services in accordance with Islamic restrictions and norms related to commerce. Despite the fact that the Islamic Bank was condemned as a cosmetic attempt to bolster the government's Islamic credentials by Islamist economists like Abdur Razzaq Lubis (1985), other Islamic economic initiatives followed suit.[5] Soon after the Islamic Insurance Company (Tafakul) was launched along with the Hajj Pilgrims Management Fund (Lembaga Urusan Tabung Haji, LUTH).

By initiating its own Islamization programme, the Mahathir government effectively stole a march from PAS. In time, the labours of the Mahathir administration began to pay off: the UIA project received considerable financial assistance from the governments of numerous Arab states. Cash injections came from countries like Saudi Arabia and Kuwait, though they were aimed more at projects related to Islamic *dakwah* (missionary) activities. Mahathir himself was gaining recognition for his efforts as a Muslim leader—in 1983 he received the "Great Leader" award by none other than President Zia ul Haq of Pakistan (who had previously similarly anointed the ABIM leader-turned-UMNO politician, Anwar Ibrahim).

The Muslim World's Centre of Gravity Shifts Again

Developments within Malaysia, however, were constantly hostage to external factors beyond the control of both UMNO and PAS. Invariably, events that took place overseas helped to shape the content and form of global Islamist politics, leading to the radicalization of Islamist movements the world over.

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One major factor that intensified the radicalization process was the Israeli invasion of Lebanon in 1982. The mass killings of Lebanese and Palestinian refugees by Christian Phalangist militants in the Sabra and Shatila refugee camps right under the eyes of Israeli troops and security personnel added to the growing sense of persecution and helplessness of Arabs in the region and Muslims worldwide.

The Middle East conflict served as the backdrop to the increasingly heated conflict that was taking place within PAS itself, as a new generation of Islamist activists fought to gain control of the party at a time when the Muslim world was seen to be slipping into a state of political crisis. The emergence of new Islamist groups abroad like Hizbullah and al-Jihad came at a time when PAS was also undergoing yet another radical change in its identity. Though the trajectories of these movements were never quite the same: while Hizbullah began as a radical militant movement that eventually adjusted its tactics to suit the democratic political process, PAS was in fact going in the other direction by adopting an increasingly militant and confrontational discourse that put it on a collision course with the state. In 1982 the irreconcilable gulf between PAS and UMNO was widened even more when PAS *ulama* Tuan Guru Abdul Hadi Awang issued his controversial *Amanat Tuan Guru Haji Hadi Awang* (Edict of Tuan Guru Haji Hadi Awang) that was based on his speech at Banggol Pradong in Trengganu.

The *Amanat* of Ustaz Hadi Awang listed ten major sins that would effectively rob a Muslim of his or her chance to go to heaven. One of these happened to be the sin of supporting a government that was actually working against the interest of Islam and the Muslim community. The controversial *Amanat Tuan Guru Haji Hadi* took the country by storm and the leaders of UMNO were quick to retaliate, accusing Hadi Awang of being an extremist fundamentalist who practised *takfir* (accusing other Muslims of being unbelievers) and who advocated the use of violence in his jihad against the state. Hadi Awang's *Amanat* echoed the confrontational polemics of other radical Islamist leaders and theologians at the time, and seemed to bring PAS closer to more radical groups like the Takfir wa'l-Hijrah and Tanzim al-Jihad of Egypt instead.

It was during this period of growing hostility between PAS and UMNO that Ustaz Yusof Rawa finally became the fifth President of PAS, taking over from the now-demoralized and discredited Asri Muda. This took place on 1 May 1983, at the 29th PAS General Assembly held at the Dewan Bahasa dan Pustaka in Kuala Lumpur where the party's president had been overthrown. With the departure of Asri Muda from the scene, PAS's experiment with ethno-nationalism was officially over. At long last, the hour of the *ulama* had arrived and the scene was set for the radicalization of the religio-political discourse of PAS.

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Reborn from the Ashes: Yusof Rawa's Reinvention of PAS in the 1980s

Yusof Rawa came to lead the Pan-Malaysian Islamic Party at a time when Malay political discourse had shifted to a different register altogether. It was Yusof Rawa who re-oriented the struggle of PAS and brought it into line with Islamist movements and political organizations in the rest of the Islamic world. Two important developments took place within the Islamist party that characterized the era of Yusof Rawa's leadership. The first was the rise to prominence of the *ulama* within the party. The second was the steady radicalization and "Arabization" of the political discourse of PAS, thanks to Yusof Rawa's conscious attempt to re-orient the trajectory of the party's struggle.

During the presidency of Yusof Rawa (1983–89), the leadership of PAS was made up of well-known *ulama* like Tuan Guru Nik Aziz Nik Mat and Tuan Guru Abdul Hadi Awang. In the same year that Ustaz Yusof Rawa was elected as the president of PAS, the ex-ABIM activist and *ulama* Ustaz Fadzil Noor was elected as the Deputy President of the party. Another ex-ABIM activist, Tuan Guru Hadi Awang was elected to the post of Vice President while Tuan Guru Nik Aziz led the *Dewan Ulama* of the party. Apart from these well-known *ulama*, the leadership of PAS was also bolstered by the entry of a new generation of Islamist activists, many of whom had joined the ABIM movement, the Islamic Representative Council (IRC) and other Islamist organizations and networks during Asri Muda's time. These included prominent ex-ABIM leaders like Syed Ibrahim Rahman and Ustaz Nakhaie Ahmad. This new generation of PAS leaders adopted a more strident and confrontational stance against UMNO and the state.

It was during this period of growing *ulama* influence within PAS that the party experienced its third major shift in its ideological orientation. While the era of Dr Burhanuddin was characterized by PAS's trenchant critique of neo-colonialism and the era of Muhammad Asri Muda was characterized by PAS's staunch defence of Malay rights, PAS under Yusof Rawa and the *ulama* soon developed a reputation as an Islamist party that was violently opposed to *asabiyyah* (communalism or ethnocentrism), *sekularisme* (secularism) and the *maddiyyah* (materialist culture) of capitalist development promoted by the UMNO-led Mahathir government.

PAS under Yusof Rawa: Ideological Re-orientation

PAS's new ideological orientation was spelled out in no uncertain terms by Yusof Rawa himself during his first speech as the new President

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of the party in 1983. In his landmark speech *Ke Arah Pembebasan Ummah* (Towards the Emancipation of the *Ummah*) delivered during the 29th PAS *Muktamar* on 29th April 1983, Yusof Rawa rejected the ideology of ethno-nationalism on the grounds that it was fundamentally a form of *asabiyyah* (clan or tribal loyalty) which was a throwback from the age of ignorance (*jahiliyyah*) before the coming of Islam. He also rejected the ideology of ethno-nationalism on the grounds that it was a remnant of the colonial past. Such forms of communitarian politics had merely led to divisions within the Muslim *ummah* and was the cause of the Islamic party's lack of direction during the 1970s, he argued.[6]

In his policy speech the following year (1984) entitled *Menggempur Pemikiran Asabiyyah* (Confronting the Mentality of *Asabiyyah*), Yusof Rawa upheld his critique against ethno-nationalism and blamed it for the decline of the Muslim *ummah* on the whole and the Malay-Muslims in particular. Nationalism, for this new generation of PAS leaders and intellectuals, was thoroughly secular and modern. It belonged to the world of the here and now, and the profane sphere of realpolitik which was responsible for sowing the seeds of discord and chaos (*fitnah* and *mihna*) in the world.

In a radical break from the stance taken by Asri Muda, Yusof Rawa also blamed the ideology of ethno-nationalism for the divisions among the Malays and argued that it was the root cause of their political and economic backwardness. Although he did not neglect or deny the needs of the Muslim community in specific localities elsewhere (his speeches were peppered with references to the plight of Muslims elsewhere in the world including Afghanistan, Palestine, Russia, India, Burma, Philippines, Thailand, Cambodia and Indonesia), Yusof Rawa maintained that the solution to the problems facing the Muslim *ummah* did not lie in the sectarian or communitarian politics of nationalism. The answer to the problems that were confronting the Muslim world then was an obvious one for him: it lay in the revival of the institution of the *ulama*.

By 1983 Yusof Rawa was already calling for the elevation of the status of the *ulama* as leaders and guardians of society following the precedent that had been set by the Iranian revolution. During his 1983 *Muktamar* speech, he explicitly cited the Iranian revolution as the model to be emulated. For Yusof Rawa it was the *ulama* who would be in the vanguard of the struggle against the forces of the "*golongan nasionalis asabiyyah secular*".

But the *ulama* could not come to power on their own without an Islamic movement or organization to serve as their vehicle. That vehicle was necessarily PAS, but the Islamist party itself had to be radically

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restructured and reoriented before it could play the role that it was destined to have. To succeed in his objectives, Yusof Rawa then began the process of restructuring PAS itself.

PAS under Yusof Rawa: Institutional Reforms and the Rise of the Ulama

PAS's new orientation was reflected in the rites and rituals of membership and association of the party that were introduced by Yusof Rawa. While the party already had its own constitution and formal membership procedure, Yusof Rawa introduced new requirements that were meant to test the political commitment and personal faith of its members.

One of the first demands he made of the members of the party was that they should swear an oath of allegiance (*ba'yat*) to PAS and no other political party or organization in the country, including other Islamist movements like ABIM, *Darul Arqam*, and *Tablighi Jamaat*. The oath of allegiance (*ba'yat*) was one of the customary practices (*sunnah*) of the Prophet Muhammad, and here it was being used for clearly political reasons. Henceforth allegiance (*wala'*) was due solely to the Islamist party and nothing else.[7] In their ideological orientation and worldview (*fikrah*), the members of the party had to commit themselves to the *fikrah* of PAS and none other. PAS, for Yusof Rawa, was meant to be the one and only *harakah Islamiyyah* in the country, and the only party that would promote and uphold the *daulah Islamiyyah*. Those who were outside the party were effectively beyond the pale of the Islamic struggle, and there would be no room for waverers and fence-sitters either.

It was also during Yusof Rawa's time that PAS developed itself into a cadre party with inner party cells and an organic structure. A great believer in the practice of *tarbiyyah* (study circles), Yusof Rawa believed that such practices were necessary so that the missionary and propaganda activities of the party could be intensified even further. During his second *Muktamar* speech in 1984, he encouraged the members of the party to form smaller cells among themselves.

The party also introduced the practice of *usrah* or group meetings that were intended to bring members of the party together and to encourage them to understand, develop and propagate the ideology of the party among themselves as well as among non-members. These *usrah* sessions were divided into different types: there were *usrah* sessions that were meant for the leaders of the party and *usrahs* for ordinary members. *Usrah* sessions for the *muslimat* or women members of the party were also encouraged. On some occasions the *usrah* would be accompanied by a *kenduri* (feast) held in the homes of the members

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themselves where non-members would also be invited. These meetings helped to generate a sense of common belonging and fellowship (*ukhwah*) among the members of the Islamist party and bring them closer together.[8] By actively encouraging such "authentic" religious rituals among the members of the party, the leadership of PAS was showing that their pastoral concerns went beyond that of party politics.

The shift towards a more radical form of activism occasioned by Yusof Rawa's re-orientation of PAS made it more attractive to the younger generation of Malay Islamist activists who were active in both the local and foreign universities at the time. As Mohammad Hatta Ramli[9] has pointed out, it was during this time that PAS experienced its first major influx of university-educated activists and intellectuals from local and foreign campuses like Nashruddin Mat Isa (who would later become the Secretary General of PAS) and Hatta Ramli himself.

It is important to note that by the 1980s PAS was attracting a large number of young Malay-Muslim graduates from both local and foreign universities. Many of these students had been sent abroad for their higher education, but while studying in the West they came to know a different Western world that was undergoing its own process of economic, political and social decline. The experience of living in an environment that was suffering from the ravages of racism, xenophobia, economic stagnation, high levels of unemployment and the breakdown of law and order only convinced some Malaysian students that the West was nearing its end and that an alternative had to be found elsewhere. Into this void stepped a number of Western-based Islamist thinkers like Ismail Ragi Faruqi, Tahar Jabir al-Alwani (both of whom pioneered the Islamization of Knowledge project in the 1980s) and the Islamist economist Kurshid Ahmad who proposed an Islamist solution to the predicaments faced by the modern subject living in the modern age. The Muslim Malaysian students who had been sent to the universities of America and Europe did indeed bring back their coveted university degrees with them, but they also helped to contribute to the process of Islamization in Malaysia by degree.[10]

While he maintained that the *ulama* had the most important role to play in guiding the *harakah Islamiyyah* and leading the *al-Jihad al-Islamiy*, Yusof Rawa saw the need to bring in graduates, professionals and intellectuals who would help to plan the party's policies. To this end he expanded the scope of activities of the *Dewan Ulama* and renamed it the *Dewan Ulama dan Intelektual Islam* (Council of *Ulama* and Islamist Intellectuals) in the very first year that he became president of the party.

By uniting the Islamist intellectuals and the *ulama*, the gulf between the two had finally been bridged. While during the time of Burhanuddin

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al-Helmy and Asri Muda the *ulama* stood in the background and were allowed to play only an advisory role within the party, they had now come to the fore to occupy centre-stage and were outlining the *khittah amal* (working guidelines) of the party itself.

Not all of the leaders of PAS were convinced or impressed by these new developments though. Other prominent PAS leaders like Ustaz Abu Bakar Hamzah warned the membership of the party about the danger of creating a new generation of "Ayatollahs" within the party and the excessive loyalty (*taksub*) that was now being demanded of the ordinary members.[11] He also warned the members of PAS to recognize the distinction between "loyalty" and "fanaticism", arguing that the shifts in language and manners among the party members did not necessarily bring them any closer to realizing their political goals.[12]

But the protests and appeals of men like Ustaz Abu Bakar were to no avail. Yusof Rawa had managed to redesign and reconstruct the party from within. Most, if not all, of the structural and institutional reforms introduced by him were designed to secure a number of key objectives:

- strengthening the position and status of the *ulama* in the party;
- creating an organic party structure that could be mobilized faster and more efficiently; and
- creating a cadre membership that could spread the message of PAS further.

These reforms would culminate in the creation of the office of *Murshid'ul Am* (Spiritual Leader/Guide) of the party—a post that Yusof Rawa himself would occupy. But in the short term, the immediate effect of these changes was to heighten the pace in the Islamization race between PAS and UMNO and move the site of Malay political discourse closer to the Islamist register.

"Bertindak Menentang Kezaliman": PAS's response to UMNO

> *Ketika kamu telah menjadi seorang Islam, maka janganlah cuba menyekat perjuangan kami didalam parti Islam PAS ini untuk menegakkan Shariat Allah dan kalimah Allah yang tinggi. Jika disekat, kami akan menentang kamu, dan jika kita mati atau gugur, maka gugurlah kami sebagai syahid, dan kamu pula dalam hal ini akan mati sia-sia.*[13]
>
> PAS *ulama* Ustaz Ibrahim Mahmood Libya, killed by state security forces at Memali, 1985

Attacking the UMNO-led government for what it regarded as its betrayal of Islam and Muslims and for defending a secular system of government

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inherited from the colonial past, Yusof Rawa and the new leaders of PAS began to inject their polemics against the government and the state with traditional Islamist concepts such as *asabiyyah*, *munafikin*, *mustazaffin* and *mustakbirin, kufr, shirk*. It was during the presidency of Yusof Rawa that we see the most visible and radical shift in terms of the *language* of PAS's politics. While the speeches of Burhanuddin al-Helmy were peppered with references to decolonization and Pan-Islamic nationalism and the speeches of Asri Muda were coloured by his near-fanatical defence of Malay communitarian rights, the speeches of Yusof Rawa and the new generation of PAS *ulama* were full of Arabic phrases and terms that were previously regarded as part of the esoteric vocabulary of religious elders.

Yusof Rawa spoke of the need for a *harakah Islamiyyah* (Islamic movement) that was united by a sense of *wahdatul fikri* (singular vision or thinking) and *wahdatul amal* (singular action), guided by the *ulama* who would lead the way in the *al-Jihad al-Islamiy* (great Islamic struggle). In turn the members of the party were kept together by common bonds of friendship and solidarity (*ukhwah*) and they were taught to be *walak* (obedient) to their leaders. The *harakah Islamiyyah* would combat the evil influences of *fikrah maddiyyah* (materialism), *asabiyyah* (ethnocentrism), *jahiliyyah* (ignorance), in order to open the way for *hadarah Rabbaniyyah* (Islamic civilization) to prosper once again. The *harakah Islamiyyah* would work towards *tajdid hadhari* (true vision) while struggling against *aqliyyah musta'marah* (hybrid/contaminated worldview), to return the *ummah* to its rightful *aqaliyyah Islamiyyah* (Islamic worldview) so that Muslims would no longer be deluded or led astray by other non-Islamic beliefs or ideologies that were *shirik* and *kufr* and that might contaminate their *aqidah* and *iman* (practice and faith).

But these shifts were not merely instances of semantic acrobatics: the move closer to the Islamist register also meant that PAS's understanding and practice of politics itself would experience a radical change. As the language of PAS politics began to alter, so did the political and ideological frontiers that were drawn up within this increasingly Islamized discursive space. The leadership of PAS was now projecting an image of Islam that was couched in terms of a politics of authenticity and purity. The question was no longer whether an Islamic state was necessary, but what kind of Islamic state was to be built and how it was meant to look like.

It was during this period that the boundary between PAS and UMNO was re-drawn along strictly policed religious lines, which finally led to the "*kafir-mengafir*" conflict where members of both parties were accusing the other of being *kafirs* (unbelievers), *munafikin* (hypocrites) and thus beyond the pale of Islam. Though traces of it had always been

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there from the beginning, this discourse of *takfir*[14] (accusing other Muslims as *kafirs*) had come to the fore in the political rhetoric of PAS by the 1980s.

The practice of *takfir* was certainly not unique to PAS. In many ways, the leaders of PAS were learning from other radical Islamist groups that had come to the fore in the 1970s and 1980s. The use of *takfir* had become commonplace in other Muslim countries like Egypt thanks to the rise of extremist groups like the Tanzim al-Jihad and the Takfir wa'l-Hijrah *(Jama'at al-Muslimin)* led by the ex-Ikhwan member Ahmad Shukri Mustafa. Ahmad Shukri was himself a disciple of the Ikhwan ideologue Sayyid Qutb (who first introduced *takfir* into the ideology and practice of the Ikhwan) and he had accused the *ulama* and religious functionaries of the Egyptian government of being *munafikin* (hypocrites) and servants of a *kafir* government. The leaders of the Takfir wa'l-Hijrah called on their followers to break away from the rest of society and instructed them not to pray along with other Muslims whom they regarded as *kafirs*. The members of the movement formed their own separate enclaves and conducted their religious activities separate from other Muslims.

Closer to home, the radicalization of Islamist politics worldwide had given birth to new, more radical Islamist movements and parties in the ASEAN region. Whereas the Muslim opposition movements of the 1960s and 1970s in Indonesia, Thailand and the Philippines were mostly led by secular-educated leaders like Nur Misuari of the Moro National Liberation Front (MNLF), the 1980s witnessed the emergence of more radical movements whose ideologies and discourses were more heavily coloured by the ideas and values of religion. In Thailand, groups like the Patani United Liberation Organisation (PULO) were overtaken by the more Islamically-inclined Barisan Bersatu Mujahideen Patani (BBMP, United Muhajideen Front of Patani) under the leadership of Wahyuddin Muhammad. In the Philippines, the MNLF was soon forced to compete against the Moro Islamic Liberation Front (MILF) led by Hashim Salamat.

The same was beginning to happen in Malaysia, as PAS's own discourse and political strategy became more uncompromising and exclusive in its approach. It was widely reported that PAS members refused to pray with UMNO members (and vice-versa) in mosques all over the country. Tuan Guru Hadi Awang's division of the Muslim community into two opposite camps, the party of God (*hizbullah*) and the party of the Devil (*hisbussyaitan*)[15] summed up the oppositional dialectics that was at work in PAS's new radical way of thinking and was taken straight out of the vocabulary and ideology of other radical Islamist groups and thinkers like Sheikh Umar Abd al-Rahman, the

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religious figurehead behind the extremist Tanzim al-Jihad movement of Egypt.

From this point onwards, a new chain of equivalences was created in the polemics of PAS. The Islamist party's leaders rejected UMNO's gradualist (*tadarruj*) approach to Islam and Islamization on the grounds that the UMNO leadership was fundamentally insincere and hypocritical (*munafikin*) and that *tadarruj* has always been used as an excuse by secular regimes that did not wish to Islamize their societies to the fullest extent. UMNO's own Islamization programme was seen as largely cosmetic and fundamentally un-Islamic.

By the mid-1980s, the leaders of PAS were putting forward their own blueprint of an Islamic state for Malaysia. PAS claimed that, in their model of the Islamic state, there would still be an elected Parliament, but one with limited legislative authority. This limitation on the legislative authority of the elected assembly was necessary for the simple reason that another body had been introduced with powers that supersede that of the legislature: the Majlis Ulama (Ulama Assembly). Following the model set by the Iranian revolution, PAS proposed to set up a new form of government where the ultimate sanctity, authority and moral legitimacy of the state rested on its adherence to Islamic laws and norms. This, in effect made the *shariah* the dominant and exclusive source of law in the model of the Islamic State proposed by PAS. Needless to say, this new approach taken by PAS also meant that it was now espousing the notion of an exclusive Islamic/Muslim leadership for its model of the Islamic state.

The 1980s and 1990s: Two Decades of Intra-Muslim Antagonism and Conflict in Malaysia

The radicalization of the political tactics, approach and discourse of PAS and the intensification of UMNO's state-sponsored Islamization program were not without their political and social costs. As a result of the shift towards a more exclusive and radical register, intra-Malay-Muslim politics in Malaysia was set to suffer the deleterious effects of conflict and antagonism for the next two decades. The 1980s and 1990s witnessed the first unprecedented instances of direct confrontation between the federal government and the Islamist opposition in Malaysia.

PAS's attacks on the UMNO-led, BN-dominated Federal government reached its peak during the constitutional crisis of 1983, the UMNO split of 1987, and the government crackdowns of 1984, 1985, 1987, 1988 and 1993. UMNO in turn responded by trying to boost its Islamic appeal and credentials, while using the security apparatus of the state to keep PAS's more radical tendencies in check. Soon enough PAS

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leaders and members found themselves facing the combined might of UMNO, the state security forces and the mainstream media of the country.

In 1984 a number of PAS leaders were arrested and detained under the *Internal Security Act* (ISA) on the grounds that their speeches and religious sermons were a threat to national security and racial harmony in the country. Those arrested included Ustaz Abu Bakar Chik, Ustaz Bunyamin Yaacob, Ustaz Latif Muhammad, Ustaz Ghazalli Hasbullah, Mahfuz Omar and Muhammad Sabu.[16] The Kelantanese PAS leader Muhammad Sabu was detained because of his inflammatory speeches against Christian missionary groups that were active in the country and which he claimed had been trying to convert Malay-Muslims. Another PAS leader who was meant to be detained but managed to escape, was the outspoken Ustaz Ibrahim Mahmood (also known as Ibrahim Libya). Ustaz Mahmood's fate would be decided in the following year, with tragic consequences for all parties involved.

In the following year (1985) the stakes in the political race were raised even further after the "Lubuk Merbau incident" where a number of ordinary PAS members were attacked by a group of thugs who broke up a PAS rally in the area. One of the PAS members, Abdul Rahim Talib, was killed during the attack. It was alleged by PAS leaders that the toughs were hired and sent by UMNO members in the area. In response to these attacks, Ustaz Yusof Rawa condemned the government for its persecution of Islamists. In his *Muktamar* speech delivered on 29 April 1985 entitled "*Bertindak Menentang Kezaliman*" ("Responding to Cruelty") Ustaz Yusof Rawa declared that the PAS member Abdul Rahim Talib had died a martyr's death (*gugur syahid*) and he attacked the UMNO-led government for the cruelty (*kezaliman*) and injustices (*ketidakadilan*) that had occurred under its rule.[17]

But the Lubuk Merbau incident would be superseded by an even more dramatic and politically costly confrontation which would take place soon after, when the PAS *ulama* Ustaz Ibrahim "Libya" Mahmood and his followers were killed in a confrontation between PAS members and the state security forces in the village of Memali in Kedah state.

Ibrahim Mahmood was himself one of the religious functionaries who had served in the Pusat Islam under the federal government in the 1970s. Like many Malaysian Islamists of that generation, he was impressed by the achievements of the Iranian revolution and the theocratic system that had been set up by its *mullahs*. He later quit his post, joined PAS, and moved to the village of Memali where he set up his own *madrasah* and recruitment centre. The *Ustaz* was well known for his fiery rhetoric and strict code of discipline: on several occasions he punished (by caning) not only his younger students but also the

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older ones who happened to be married men.[18] He was invited to speak on Islamic matters on national television, and engaged in numerous discussions with the *ulama* and religious functionaries of the state as well. However his own defence of Islamist politics and PAS was soon articulated through an oppositional dialectics that drew a dividing line between "authentic" Muslims and the inauthentic Islam of the *munafikin* (hypocrites). Ustaz Ibrahim lamented the fact that the Islamists in Malaysia were not willing to engage in an all-out jihad against the secular state and the *munafikin* Mahathir government. On several occasions he openly called for an Islamic revolution in Malaysia and the setting up of an Islamic state by whatever means necessary.

In November 1985 the government responded to Ustaz Ibrahim's open defiance with the use of force. While the Prime Minister was abroad on a visit to China, the Deputy Prime Minister Musa Hitam was given responsibility for the task. Malaysian security services were ordered to arrest the *Ustaz* and his followers. On 19 November, the village of Memali was surrounded by state security forces that included both the army and the police. A total of 576 security and armed forces personnel were present, along with armoured cars and trucks.[19] Shortly after the *Ustaz* had delivered his morning lecture (*kuliah subuh*) at the *madrasah*, the troops were ordered to move in. Ustaz Ibrahim and his followers resisted their entry with force, and the troops opened fire. In the course of the fighting, Ustaz Ibrahim was killed along with fourteen of his followers.

The government's White Paper on the Memali incident further implicated senior PAS leaders like Ustaz Hadi Awang as being the instigators of the violence that took place.[20] To counter PAS's version of events, the Islamic Council of Kedah even issued a *fatwa* that stated that Ibrahim Libya was not a *shadid* (martyr) and that those who were killed did not die in the name of Islam. But once again the government found that its control of the media and information channels in the country was not enough to persuade the public at large. Despite incessant attempts to present the government's side of the story and to discredit the opposition, public sympathy was once again on the side of PAS and the Islamists.

In 1987, PAS was once again caught in the cross-hairs of the state security apparatus when a nation-wide crackdown on all opposition parties was launched. Prompted by the internal split within the dominant UMNO party (which led to the formation of the Semangat '46 party led by veteran UMNO leader Tengku Razaleigh Hamzah, who was then a contender for the post for UMNO president), and the feuding among the Barisan Nasional component parties (over issues such as minority rights and Chinese education), the crackdown codenamed Operasi Lalang

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began on 27 October and led to the arrest and detention of 119 people under the ISA. The day after Operasi Lalang was launched, several mainstream newspapers in the country were also banned.

PAS was not spared either: a number of PAS leaders and activists were also arrested and detained under the ISA. The leaders of PAS were accused of fanning the flames of communalism and religious conflict in their speeches against Christian missionaries who were said to be working in the country and engaged in a covert campaign to proselytize among the Malay-Muslims. Yusof Rawa's fiery speeches did little to improve the situation and helped only to bolster the image of PAS as a radical Islamist party bent on creating an Islamic state at all costs. His calls for *jihad* and revolutionary struggle struck a resonant chord with the rank and file of his party, but also helped to alienate PAS from the mainstream of Malaysian society.[21]

A number of PAS leaders were caught in the security forces' dragnet. PAS leaders like Zainuddin Abdullah and Omar Khalid were accused of being part of an underground militant organization.[22] Others like Mohamad Sabu were accused of stirring up anti-Christian sentiments among the Muslims and were also arrested. While a number of PAS leaders were languishing in prison, the party was not given any time to recover from its losses. In the following year "Operasi Kenari 88" was launched by the state security forces after a series of confrontations between members of PAS and UMNO as well as the government's security and intelligence services in the states of Kedah and Perak. Things came to a head when disputes arose about the activities that were taking place at the PAS seminary Muassasah Darul 'Ulum.[23]

The Muassasah Darul 'Ulum was one of the centres of PAS *tarbiyyah* activity in the state of Kedah. By 1988 it was well known to a large number of young PAS members and supporters from all over the state. In October the Malaysian Special Branch based in Kedah were receiving complaints from UMNO members about the activities that were taking place in the Muassasah Darul 'Ulum. It was alleged that members of Pemuda PAS were gathering a stockpile of arms that were hidden in a cache under the floor of the Muassasah. Scuffles broke out when the police tried to enter the building by force. When the police were finally given permission to enter the Muassasah, they found that their investigations were hampered by the fact that the floor was actually covered with cement. The search proved fruitless and none of the allegations against the PAS members housed at the Muassasah were proven.

Shortly after the incident at the Muassasah, a number of other accusations were made against PAS members. After a recreational centre at Sik was burned down, the authorities were quick to put the

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blame on PAS "militants" whom they accused of trying to disrupt the UMNO Semarak rally that was scheduled to take place in the town nearby. PAS members were also accused of wanting to seek revenge against the state government after the Muassasah Darul 'Ulum affair.[24] The police responded by turning on the PAS activists in the state immediately by launching "Operasi Kenari".

Between 14 October to 10 November, the security forces apprehended 31 members and supporters of PAS in the states of Kedah and Perak. Six pistols were found, along with three hand grenades, various explosive devices and ammunition. The entire operation took over 28 days and its cost was estimated at around RM 500,000.[25] Among those arrested and later detained under the Internal Security Act were Mohammad Rus Jaafar, Shahrul Fuadi Zulkifli, Shamsul Bahrin Shaari and Shamsul Kamal Jamhari. They were all prominent PAS activists and members of the youth division of the party. Rus Jaafar was also known to the local residents thanks to the pastoral services he rendered as the community doctor.

What was even more interesting about the entire operation was the way that the members of PAS were depicted in the official press and the mainstream media. Those accused and detained were described as *mujahideen* militants who were planning to start a campaign of "holy terror" in the state.[26] In the same way that other PAS leaders had been linked to shadowy Islamist militant and terrorist organisations in the past—such as the Pertubuhan Sabilullah and the Jundullah movement during the crises of the 1980 Kedah farmers riots and the nation-wide Ops Lalang crackdown of 1987—PAS members were once again being cast as Islamic "terrorists" and "militants" who were a threat to national security and racial harmony in the country.

The net result of the whole operation was that it further intensified the confrontation between PAS and the UMNO-led Federal government, and painted the conflict as a battle between the forces of militant Islam against the state. The fact that small arms and weapons were found during the sweep also helped to reinforce the growing suspicion that militant cells were indeed active in PAS by then. PAS leaders like Yusof Rawa dismissed such findings as mere UMNO propaganda, but failed to realize how their own confrontational tactics and militant rhetoric had contributed to PAS's new image as a militant force in the country.

By the late 1980s the ardent polemics of PAS's President Yusof Rawa reached their climax. The culmination of years of passionate and intense struggle, his outspoken attacks on the UMNO-led government reflected the extent to which PAS had finally come into its own as an Islamist party with a decidedly radical outlook. Here was Yusof Rawa

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offering no apologies for his political beliefs and principles. In his *Muktamar* speech of 1987, Yusof Rawa criticized the Malaysian government for not doing enough to safeguard the interests of Islam and Muslims in the country. He argued that the country's educational system remained too secular and that the government's lax national security policy had exposed Malaysian society to the activities of covert anti-Islamic groupings that included Zionist agents, Christian missionaries and Communist infiltrators.[27]

In his *Muktamar* speech entitled *Bertekad Membulatkan Jama'ah*[28] (Struggling to Unite the Faithful), Yusof Rawa described PAS as the one and only *hizbullah* (Party of God) in the country and he maintained that the political struggle of PAS was nothing less than the struggle of Islam itself:

> *Wajarlah kita menegaskan bahawa kewujudan PAS adalah menunaikan tuntutan Islam, yang dinyatakan oleh firman Allah...Tegasnya PAS adalah jama'ah yang menyakini bahawa Islam satu-satunya kekuatan yang dapat membangun segala Ummah Islam, membebaskan golongan mustazafin dan menyelamatkan dunia dari kehancuran dan kemusnahan.*[29]

In his speech Yusof Rawa also placed PAS on the map of the contemporary Islamic world and identified the Malaysian Islamist party with other Islamist movements like the Jama'at-e Islami, Ikhwan'ul Muslimun and Hizbul Rifah that were actively pursuing the goal of an Islamic state elsewhere.[30] He compared the trials and tribulations that had been suffered by the members of PAS to that of other Islamist movements the world over. In the same year (1988) PAS had also organized its Ijtimak Antarabangsa Perpaduan Ummah (International Conference on Muslim Unity) where representatives from other Islamist movements from Thailand, Indonesia, Pakistan, Iran, Iraq, Egypt and Saudi Arabia were invited to attend. What began as a local political struggle between two Malay-Muslim parties was now elevated to the stage of global politics. The Islamist party that was completely unheard of in the 1950s was now ranked as one of the most well known in the region, despite the fact that it had not secured any concrete successes on the political field just yet.

Although none of the claims about PAS's alleged involvement in clandestine subversive activities in the country had been decisively proven, it was known that a number of young PAS members and supporters had become involved in militant activities outside the country by then. Some of the more committed members of the party (like C.N. Al-Afghani and Fauzi Ismail) had actually left the country in order to train as *mujahideen* in places like Pakistan and Afghanistan. By then

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Pakistan had already become of one the major recruitment centres for *mujahideen* and *jihadi* volunteers from all over the world: with active support from rogue sections of the Pakistan's [Pakistan's military intelligence agency] agency and Islamist organizations like the Jama'at-e Islami, the country was turned into a massive training ground for eager young recruits who were willing to give up their lives for the sake of the Islamic struggle. The Islamist movements outside Pakistan were also more than prepared to contribute their share of bodies to the cause, and the deaths of young Malays like Fauzi Ismail and Abdul Aziz Samad in Afghanistan added to PAS's image as a party that was committed to the struggle of Islam and the *jihad* against its enemies.

In 1988 Ustaz Yusof Rawa retired from the post of PAS president and was elevated by the senior *ulama* of PAS to the status of *Murshid'ul Am* (Spiritual Leader) of the party: a post he had introduced himself, borrowing the idea from the Ikhwan'ul Muslimin of Egypt. The post of PAS president was then passed onto his deputy, Ustaz Fadzil Noor, who was himself an ex-member of the ABIM movement in the 1970s.

Fadzil Noor's genius lay in his abilities as a tactician and strategist. Unlike the fiery-tempered and outspoken Yusof Rawa, Fadzil Noor adopted a more "technocratic" approach to PAS's politics and worked towards deepening the bases of PAS support in the northern states and urban centres of Peninsular Malaysia. Through his guidance and tutelage, PAS began to recruit more and more professionals from the middle classes. The "technocratic" wing within PAS—made up of men like Dzulkefly Ahmad, Hatta Ramli and Nashruddin Mat Isa—were given more room to manoeuvre and to re-orient the party's strategies to meet the demands of the democratic process. Thanks to PAS's newfound ability to work within pragmatic coalitions and instrumental alliances, the party managed to regain control of the state of Kelantan in the elections of 1990. (This was also largely due to the help of the breakaway Semangat '46 party led by ex-UMNO leaders like Tengku Razaleigh Hamzah and Rais Yatim.)

Having won control of the state of Kelantan in 1990, PAS was now given the opportunity to implement its vision of the Islamic state it had been dreaming of for so long. This in turn opened the way for more political conflicts, such as the one around the issue of the controversial *hudud* law enactment that PAS intended to bring into effect in Kelantan shortly after it came to power in the early 1990s.

The 1990s witnessed an escalation of discursive conflict between UMNO and PAS, as both parties competed for the hearts and minds of the Malay-Muslims of Malaysia. (It should be noted that both parties, being predominantly Malay in orientation, have seldom focused their attention on the significant number of Indian and Chinese Muslims in

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the country.) Throughout the 1990s, Malaysia's political culture was radically altered and distorted as a result of this intra-Muslim competition between UMNO and PAS. Thanks to the Islamization race between the two, mainstream Malaysian national politics was soon dominated by issues such as the Islamic state, *shariah* law and the implementation of *hudud* punishments, polygamy, religious education, the construction of mosques and religious schools, and the definition of "proper" and "correct" Islam. From an outsider's point of view, it appeared as if Malaysian politics had been dominated solely by religion, and particularly Islam, alone.

PAS's strategy in the 1990s was a more cautious one: it sought to chip away at UMNO's Islamic image and credibility and tried to take advantage of the internal rifts within the party and the growing sense of dissatisfaction and alienation felt by the larger section of the Malay-Muslim constituency, and the Malay-Muslim youth in particular.

The economic crisis of 1997 and the "Anwar Ibrahim" crisis of 1998 (occasioned by the untimely dismissal and graceless expulsion of the Deputy Prime Minister Anwar Ibrahim) was exploited to the hilt by PAS. Cashing in on the waves of indignation and protest brought about by the downfall of Anwar (and his physical abuse at the hands of the Inspector General of Police, no less) PAS reaped the harvest of new recruits as tens of thousands of members of UMNO left the party and joined the opposition instead. At the elections of 1999, PAS gained the most from this massive vote swing against UMNO, and as a result won control of Kelantan and Trengganu and made significant gains in Kedah, Perak, Perlis and Selangor.

PAS's political fortunes were set to rise even further, had it not been for the fear of "Islamic militancy" at home. Just when many in the country felt that PAS had begun to transform itself into a more moderate and democratically-inclined party that was able and willing to work according to the rules of democratic constitutionalism, a series of government security crackdowns reactivated the spectre of religious extremism that had been laid to rest by the late 1980s.

In June 2000 Malaysians were stunned by the sudden revelation that a major arms heist had taken place in the town of Gerik in Perak. The heist was carried out by a group of fifteen men who were dressed in army uniforms driving in jeeps painted green to look like Malaysian Army vehicles. After infiltrating the two camps, they managed to get away with more than 100 pieces of military hardware including hand-held rocket launchers, machine guns and automatic rifles. The group was finally tracked down to their hideout in Sauk, where they were encircled by government security forces and the army. After a brief siege and shoot-out, the members of the group were forced to surrender—

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but not before they had killed two of their (non-Muslim) hostages. In the trial and investigation that followed, it was revealed that those responsible for the arms heist were members of a local Malay *silat* (martial arts) group called al-Maunah that was led by an ex-army corporal named Mohammad Amin Razali. The al-Maunah group was accused of trying to topple the Malaysian government and to bring about an Islamic state by force of arms. Ten of its leaders were sentenced to ten years imprisonment each. The government accused PAS of having sympathy with such movements, but to its embarrassment it was soon revealed that some of the al-Maunah members also belonged to the ruling UMNO party.

In the same month that the al-Maunah group was arrested and put on trial, a second Islamist "militant" group was identified in the country. This was the so-called "jihad gang" that was alleged to be responsible for a number of bank robberies, kidnappings and murders in the country. The group was also accused of several attacks on non-Muslim places of worship, attacks on business premises they regarded as *haram* (unlawful) in Islam and the murder of an Indian Member of Parliament (MP Joe Fernandez of the MIC). After a failed robbery attempt on a bank, two members of the gang were wounded and taken into custody. Once under police custody the wounded members of the gang were made to confess and during their interrogation they revealed their identities as well as those of their fellow gang members. The group was finally rounded up by 7 June. The Malaysian authorities then revealed that most of the members of the gang had participated in numerous *jihad* campaigns in Afghanistan and Ambon, Indonesia. Many of them were also graduates from foreign Islamic universities and *madrasahs* in Pakistan, Egypt and the Arab states.

Later in August 2001 the government detained ten Islamist activists—many of whom were members of PAS—on the grounds that they belonged to an underground militant group called the Kumpulan Mujahidin Malaysia (KMM, Malaysian Mujahideen Movement). The leader of the group was said to be Ustaz Nik Adli Nik Aziz, the 34-year old son of the *Murshid'ul Am* (Spiritual Leader) of PAS, Tuan Guru Nik Aziz Nik Mat. Though Nik Adli was only a teacher at a religious school in the state of Kelantan (of which has father was the Chief Minister), the authorities claimed that he had studied in the *madrasahs* of Pakistan and that he had spent time training and working with *mujahideen* militants in Afghanistan. Several of the other men arrested had also travelled to Pakistan for religious education and military training with the *mujahideen* operating along the Pakistan-Afghan border.

The terrorist attacks on the United States on 11 September 2001 made things worse for PAS, as it did for Islamist movements worldwide.

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As the Malaysian business community and urban middle-classes caught the brunt of the downturn brought about by dropping investor confidence and Malaysians found themselves to be terror suspects abroad, the appeal of PAS took a radical dip. PAS's support for the Taliban, al-Qaeda and Osama bin Laden and its declaration of *jihad* against the United States during the American-led war against Afghanistan did little to improve the image and standing of the party. It appeared as if the democratic and progressive image of the party that had been painstakingly cultivated by its "technocratic wing" was a veneer and that PAS was showing its true colours once again.

Needless to say, the UMNO-led government lost no time in exploiting this breach in PAS's armour, and immediately projected itself at home and abroad as the defender of "progressive" and "moderate" Islam.

Can Radicalism Prosper in Malaysian Climes? Assessing the Impact and Success of PAS's New Politics in the 1980s and 1990s

This aim of this article was to examine how and why PAS made the transition from being a moderate Islamist-nationalist party in the 1960s and 1970s to the more radical and fundamentalist party that it is today. I have tried to show that behind the scenes there were always local and international variables at work.

The move towards a more radical Islamist agenda and register was certainly not unique to PAS. In many other countries like Indonesia, Philippines and Thailand, the resurgence of Islamism in the 1980s led to the creation of more radical movements and parties like the BMPP and MILF. But this took place in countries where there were already a plethora of Islamist organisations and movements at work and where Muslim politics was more plural in character. The Malaysian scenario did not allow for such a development, for the simple reason that the discursive and political space for new movements was not there: both UMNO and PAS were already on the scene and both parties competed intensely for control over the form and content of Islamist discourse, marginalizing other potential competitors. The other movements on the local Malaysian scene—like ABIM, the Jama'ah Isla'h Malaysia (JIM) and Darul Arqam—were not political parties but rather NGOs and social movements. As such the only way that this shift to a more radical register could take place was through the radicalization of PAS's own politics and the further Islamization of UMNO and its agenda. This is precisely what happened,

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and the arena for intra-Muslim political competition has remained narrow and uncrowded in the Malaysian case.

Domestically the main factor that contributed to the radicalization of PAS was UMNO's own attempts to win control of the same discursive territory upon which its politics was based. Being an Islamist party with Islam as the basis of its ideology, PAS could not allow UMNO to proceed with its Islamization program without trying to defend its own interpretation of Islam and to foreclose any possibility of an alternative approach to the religion. PAS's radicalization in the 1980s and 1990s was symptomatic of a party trying its best to defend its own ideological and discursive space by any means available. If PAS's rhetoric became more uncompromising and confrontational, it was simply because the party was trying to prevent UMNO from providing an alternative vision of Islam. The 1980s and 1990s thus witnessed an intense period of competition between UMNO and PAS as both parties sought to "out-Islamize" each other. But the nature of this conflict, made more complex thanks to both local and international variable influences and factors, was bound to be hostile, bitter and at times even violent.

Several questions, however, remain: just how committed is PAS to its vision of radical Islamism? Is the party able and willing to commit its manpower and resources towards setting up an Islamic state in Malaysia despite the opposition of a large section of Malays and non-Malays, Muslims and non-Muslims outside the fold of the party? Has the party actually implemented any of the Islamist programs and projects that it has presented to the electorate? And despite all the talk of revolution and *jihad* in the 1980s and 1990s, can we actually describe PAS as a radical Islamist party like the Jama'at-e Islami, Ikhwan'ul Muslimin or, closer to home, the MILF or BMPP?

First of all, it should be noted that PAS has never been a homogenous and monolithic party. Despite the strict code of discipline that is uses to keep its members and cadres in line, PAS is far more complex than it appears to outsiders. Many journalistic reports on PAS have simply failed to note the internal differences and dynamics within the party itself, and failed to recognize the fact that PAS contains dissident elements within it.

Even during the 1980s, not all of the members of the Islamist party were happy with the institutional reforms and discursive shifts that had been brought about by Yusof Rawa and the *ulama* faction within PAS. The other Islamist movements in the country like ABIM and Darul Arqam were constantly criticizing PAS for its uncompromising stand on certain issues and the increasingly narrow approach it took to politics in general. Within the party, opponents to Yusof Rawa and the

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ulama faction had also come to the fore. Ustaz Nakhaie Ahmad and Ustaz Abu Bakar Hamzah were among the PAS leaders who openly questioned and criticized the fiery polemics of Yusof Rawa, Fadzil Noor and Hadi Awang. Some of these PAS leaders later left the party and joined UMNO, or formed breakaway parties of their own. This included splinter parties like Asri Muda's Hisbul Muslimin (HAMIM), Muhamad Nasir's BERJASA and the Angkatan Keadilan Insan Malaysia (AKIM) which was led by Cikgu Musa Salleh.

Second, it ought to be noted that one of the major factors that have helped to boost the appeal and credibility of PAS has been the constant persecution and harassment of the party leaders and members themselves. The state's heavy-handedness also had other negative consequences for the government's attempt to promote an alternative school of Islamic thought to counter that of PAS's. While the government was desperately trying to re-invent Islam as a modern work ethic that was liberal, open, tolerant and progressive, the actions of the state security apparatus did more than enough damage to convince the members of the public that UMNO's brand of Islam was not as open and tolerant as it was made out to be. PAS exploited the contradictions in the government's policies towards Islam to further its own claim that the State's Islamization programme was nothing more than a cosmetic exercise designed to give the government the veneer of Islamic credibility it badly needed. The arrest, detention and even killing of PAS leaders and members gave the party the host of heroes and martyrs *it* badly needed, adding to its image as the persecuted underdog that was being wrongfully vilified and abused by the "cruel tyrants" in the government. The UMNO-led government, on the other hand, has failed to realize the simple fact that one cannot deal with religious extremism or radicalism with violence and force, and that "progressive Islam" will not be born at the point of a rifle or behind the bars of a prison.

Third, PAS's success has more to do with its ability to project itself as the defender of "authentic" and "pure" Islam above all else. Relying on the internal contradictions and divisions within UMNO and the government apparatus, PAS has resorted to a politics of authenticity and nostalgia instead. The conflation of PAS with "authentic Islam" during Ustaz Yusof Rawa's time had an important effect on PAS's perception of itself as a political party. The ascendancy of the *ulama* faction during the time of Ustaz Yusof Rawa did not lead to the dominance of a single leader (which was the case during the time of Burhanuddin al-Helmy and Asri Muda) but rather a group of savant-politicians who led the party by example and by embodying its philosophy. At the hands of the *ulama* and Islamist ideologues, PAS has been able to re-invent Islam in its own image and to form a chain

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of equivalences that equated their party with Islam, Islamic culture and social norms as well. This control over vital cultural capital was one of the factors that gave PAS the edge it needed over UMNO when it had precious little control over other forms of political and economic capital.

Fourth, PAS was also able to capitalize on the divisions and weaknesses within its opponents in UMNO. This has led many observers to the simple conclusion that PAS's success had less to do with its own rhetoric and discourse but rather the failings of UMNO and the UMNO/BN-led government itself. Evidence to back up this claim can be found in the election results of 1986, 1990, 1995 and 1999 themselves: in 1986, when PAS was at its most radical and uncompromising stage (it had just lost its leader Ustaz Ibrahim Mahmood who was killed in Memali and the Lubuk Merbau incident was also lurking in the background) the party was thoroughly defeated at the polls. The 1986 elections were a disaster for the Islamist party, which only managed to win one Parliamentary seat.[31] The biggest winner of the 1986 elections was the secular-leftist DAP party instead.

Conversely, the Islamist party managed to make huge gains when it was least expected to do so: in 1990 it swept its way into Kelantan with the help of the Semangat '46 party that was led by the ex-UMNO leader Tengku Razaleigh Hamzah and in 1999 it broke new ground and conquered Trengganu as well, thanks to the support of the Parti Keadilan Nasional (PKN) that was set up by the deposed ex-Deputy Prime Minister Anwar Ibrahim and led by his wife, Wan Azizah Aziz. In both cases, it was the breakdown within the UMNO party political machinery that opened the way for PAS to come in and occupy key seats and constituencies that had been left leaderless.

If this be the case, then it could be argued that the secret of PAS's success has been its ability to goad its opponents in UMNO to take on the issues it has raised without actually committing itself to an all-out revolutionary struggle to Islamize Malaysia and the state apparatus. By constantly presenting itself as the sole defender of *authentic* Islam, PAS has been able to compete against UMNO in a discursive arena that is tipped in its favour. UMNO, on the other hand, has been caught in a war of words against a party whose Islamist credentials are obviously stronger and more convincing than its own. Thus, despite its lack of economic and political resources, PAS has been in a winning position from the start. Being a party that was once on the political margins of Malaysian society, PAS's apparent weakness and poverty were actually the assets that it needed in the moral struggle that it fought against UMNO and its "decadent materialist capitalist culture".

PAS has also succeeded because it has managed to shift the focus of Malaysian politics closer to the Islamic agenda, both directly and

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indirectly. By deliberately pushing to the foreground issues like the Islamic state, *shariah* law and *hudud* punishments, PAS has been able to present UMNO with a challenge that it cannot afford to ignore. In the same way that the Republican party in the United States has managed to lure the Democrats to a more conservative form of politics by prioritizing issues such as gun control, abortion, and tax cuts, PAS has managed to lure UMNO and the BN parties out of the secular, liberal-capitalist enclave that was once the centre of Malaysian politics.

Can PAS actually mount a serious and effective challenge against the ruling BN coalition and its hegemonic stranglehold on Malaysian society and politics? Are the media's claims of an imminent take-over of Malaysia by radical Islamists justified? The realistic answer, even before the advent of September 11, would simply be no.

PAS remains a Malay-Muslim party whose primary base of support are its Malay-Muslim constituents in the Malay heartland of the north. The party's appeal to Malaysian society as a whole, divided as it is along cleavages of race, ethnicity, religion, language and class is far weaker than its natural hold on its primary supporters. Furthermore, the controversial and fiery polemics of men like Yusof Rawa, Hadi Awang, Mahfuz Omar and Mohamad Sabu also had the negative effect of scaring away the non-Malays and non-Muslims, who were not prepared to endorse the creation of an Islamic state in their own backyard. The non-Malay communities could still recall the days when PAS was led by the fiercely chavinistic Asri Muda who was openly hostile to the Chinese in particular and they were not used to the Islamist rhetoric of the new leaders of PAS. The non-Muslims were apprehensive about the party's demands for an Islamic state governed by a supreme *ulama* assembly. Unfavourable comparisons with the Iranian revolution, the Taliban regime in Afghanistan and the activities of other militant Islamist movements abroad (which abound in both the local and international press) have made the idea of an Islamic state even more unpalatable to the urban-based non-Malay and non-Muslim communities, as well as a significant section of the Malays themselves. PAS's attempts to win the support of some Chinese Muslim converts (which began in the mid-1980s) have thus far proven unsuccessful and piecemeal at best.

Can a Radical PAS Evolve a New Form of Politics for Malaysia?

In the light of current developments in Malaysia and the world today, it could be argued that PAS, like many other Islamist movements and parties worldwide, is at an impasse. As the discourse of the "war against terror" is instrumentally used by the governments of the West

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and elsewhere to foil the advances of Islamist movements the world over, PAS's rise has been invariably affected as well. The party has been demonized and stigmatized for more than two decades in the media (partly thanks to its own miscalculations and dubious sympathies), but today PAS finds itself in the same category as radical militant organizations like the Taliban, Abu Sayyaf, MILF and al-Qaeda (some of whom the party has expressed support for).

The radicalization of PAS's rhetoric, discourse and political strategies put the party in good stead in the 1980s and early 1990s when it allowed PAS to usurp UMNO's role as the main defender of Muslim interests in Malaysia. By latching on to the latest wave of radical Islamism abroad, PAS had also managed to place itself on the global map as one of the key players in the world of political Islam. As it raised the pitch and tenor of its discourse to the level of other groups like the Hizbullah, MILF, Jama'at-e Islami and Ikhwan'ul Muslimin, PAS found itself riding the crest of the Islamist resurgence worldwide.

But now this resurgence has come under check as the dominant Western powers intensify their efforts against the so-called "unseen menace" of Islamic radicalism and ironically PAS is paying the price for its political successes earlier. Having made it to the first division of Islamist movements worldwide, PAS now finds itself under the scrutiny of security agencies both in Malaysia and abroad.

Did the radicalization of its discourse and rhetoric help PAS gain any major political concessions and objectives? The answer would be mixed: latching on the global current of transnational Islamism meant that PAS's domestic struggle against the UMNO-led federal government had been elevated to a higher, global level and gave the party the image and status that it had been looking for all along. But the radicalization of PAS's rhetoric has also meant that PAS is now captive to its own discourse and finds it difficult to break free from the confines of a religio-political radicalism that needs to maintain its own momentum for fear of dying out.

Like all radical movements that have achieved some degree of electoral/political success, PAS needs to deal with the pressing political realities of the time which, in the case of Malaysia, means learning to play the game of democracy according to its rules. In the wake of the 1997–98 economic and political crises, many ordinary citizens of Malaysia were eager to experiment with a new form of politics, and this gave birth to the Reformasi movement that took the country by storm right up to the 1999 elections and which gave PAS its second important victory. But in the wake of the 1999 elections, the Malaysian public has been shown little in terms of PAS's actual commitment to concrete social and political change. As soon as it came to power in Trengganu,

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the Islamist party's first measures included banning the mixing of unmarried couples in hotels and leisure centres and a ban on public swimming on the beaches (which did little to revive the already underdeveloped economy of the state).

Can PAS help to deliver a new form of politics to Malaysia, or does the rise of PAS mark a further degeneration of Malaysian politics? Unless and until the ideologues of the Islamist party manage to deal with the pressing issues that affect the Malaysian electorate—such as democratization, equal rights, the end of quotas and ethnic privileges, and freedom of the press—it appears as if PAS's only remaining avenue for action is the arena of religio-political discourse. It is here, where PAS has most to gain and the least to lose, that it has been most effective. But PAS's vision of an Islamic state built through *jihad* and revolution, populated by "good Muslims" and their *kafir* and *munafikin* enemies, is certainly not the goal of everyone. The party remains trapped in a discourse of its own making, hostage to a theocratic politics that can promise paradise in the afterlife but few solutions in the here-and-now.

NOTES

1. "The victory of Islam will not come by itself. Allah has ordained that victory in this world will only come to those who are prepared to engage in a *Jihad* that is never-ending". Quoted in Mujahid Yusof Rawa, *Permata Dari Pulau Mutiara: Suatu Catatan Hidup Ayahandaku Haji Yusof Rawa* (Shah Alam, Selangor: Warathah Haji Yusof Rawa Sdn Bhd Angkatan Edaran Enterprise, 2001), p. 128.
2. Malaysiakini.com, "*US Embassy under Guard, PAS Labels Americans 'War Criminals'* ", 8 October 2001.
3. See "Khomeini—the limitless impact of the Ayatollah's Revolution", in *Harakah*, 31 December 1999.
4. Shanti Nair, *Islam in Malaysian Foreign Policy* (London and Singapore: Routledge and ISEAS, 1997), p. 112.
5. For a critique of the Bank Islam project, see Abdur-Razzaq Lubis, *Tidak Islamnya Bank Islam*. Georgetown, Penang: PAID Network 1985.
6. Kamaruddin Jaffar (ed.), *Memperingati Yusof Rawa* (Kuala Lumpur: IKDAS Press, 2000), p. 30.
7. C.N. Al-Afghani, *Rakyat Makin Mantang* (Baling: Corak Memali Press, 1999), p. 22.
8. C.N. Al-Afghani, *Dagangnya Dibeli Allah*. (Memali, Kedah: Penerbitan al-Jihadi 2000), p. 85.
9. Mohammad Hatta Ramli, "Allahyarham Haji Yusof Rawa", in Jaffar, 2000, p. 16.
10. See Farish A. Noor, "Islamisation by Degrees: Europe in the Formation of New Islamist Consciousness among Malaysian Students and Activists between the 1970s and the 1990s". Paper for the International Conference on 'Cosmopolitanism, Human Rights, and Sovereignty in Multicultural Europe', Institute of European Studies, UC-Berkeley and the Centre for Global, International, and Regional Studies UC, Santa Cruz, May 4 and 5, 2001.

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11. See, for instance, Ustaz Abu Bakar Hamzah, "Mengakui Kebenaran Suatu Kewajiban". *Watan*, 21 July 1988.
12. Ibid.
13. "And if you consider yourselves to be Muslims then do not hinder us in the Islamic party PAS in our efforts to uphold the *Shariah* and *Kalimah* of Allah al-mighty. For if we are stopped, we shall resist and oppose you; and should we fall in our struggle we would be killed as martyrs while you can only die for nothing". C. N. Al-Afghani, *Perisai Memali*. Baling, Kedah: Corak Memali press (1997), p. 72.
14. The term *takfir* refers to the practice of Muslims accusing other Muslims of being *kafirs* (unbelievers), *munafik* (hypocrites) or *murtad* (apostates).
15. See Tuan Guru Abdul Hadi Awang, "Hizbullah dan Hisbussyaitan". Jabatan Penerangan dan Penyelidikan PAS Pusat, Batu Caves, Kuala Lumpur, 1984.
16. C.N. Al-Afghani, 1997, p. 26.
17. Jaffar, 2000, p. 109.
18. C.N. Al-Afghani, 1997, p. 70.
19. Khoo notes that 576 police and security personnel took part in the operation, though only 228 of them actually approached Ibrahim Libya's house and *madrasah*. Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Kuala Lumpur: Oxford University Press, 1995), p. 256, f. 203.
20. Khoo notes that "an excerpt from a 1981 Hadi Awang speech which contained references to *mati shahid* (martyr's death) was reproduced in the White Paper on the Memali incident, purportedly as evidence of Haji Hadi's extremism". Khoo, 1995, p. 254, n. 182.
21. In 1987 Yusof Rawa wrote that "any Muslim who is not brave enough to take part in a *jihad* cannot call himself a real man, because a real man would not run away when he is called upon to undertake a *jihad*. All Muslims must prepare themselves for *jihad* to show that they are prepared to do anything to ensure the victory of Allah". (*Harakah*, 26 June 1987).
22. Al-Afghani, 1990, p. 125.
23. For a fuller account of the whole Muassasah Darul 'Ulum affair and the principle characters involved, see C.N. Al-Afghani, *Operasi Kenari: Suatu Hukuman Tampa Bicara*. Penerbit Pemuda Press, Datuk Keramat, Kuala Lumpur, 1990.
24. Al-Afghani claims that the police and Special Branch were at first inclined to believe that the destruction of the KEDA recreational complex at Sik was the work of Semangat '46 members, but they later turned their attention to the PAS activists in the area. (Al-Afghani, 1990, p. 71).
25. Al-Afghani, 1990, p. 95.
26. Al-Afghani, 1990, p. 125.
27. Yusof Rawa insisted that there was a need for a radical overhaul of the country's educational system which had produced a generation of young Malay-Muslims who had lost their sense of direction and whose cultural compass was no longer oriented towards Islam. (Jaffar, 2000, p. 212). In his speech Yusof Rawa also warned that the country was being infiltrated by both Christian missionaries operating from Singapore and Communist agents who were coming as illegal immigrants and refugees from abroad (mainly Vietnam). He argued that the Malaysian government was not doing enough to monitor the activities of Christian missionary groups in the country and that these groups were actually engaged in a concerted effort to convert the Malay-Muslims of Malaysia in the same way that Christian missionary groups were said to be converting Indonesian Muslims. (Jaffar, 2000, p. 213).
28. The speech was delivered at the party's 34th General Assembly at the party's *Markaz Tarbiyyah* in 8th April 1988.

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29. "It is only proper for us to emphasise that PAS has come into being for the sake of fulfilling the promise of Islam, as it has been laid down by Allah...PAS is a movement that believes that Islam the one and only power that can uplift the entire *Ummah*, that can free the oppressed and can save the world from its own degeneration and destruction". (Jaffar, 2000, pp. 224–6.)
30. Jaffar, 2000, p. 230.
31. The 1986 elections showed just how weak PAS was then, despite the heated tenor of its official party-political rhetoric: with the advantage of having the media and other governmental institutions under their control, the parties of the ruling Barisan Nasional coalition managed to win 57.6 per cent of the votes cast which translated into 148 out of the 177 seats won (83.6 per cent of seats). PAS's belated efforts to improve its reputation and tone down its militant image failed miserably. Thanks to the devastating media campaign that had been directed against PAS by the state-controlled and Barisan-owned media in the country, PAS was thoroughly defeated. The party managed to win only one parliamentary seat in Kelantan in the constituency of Pengkalan Chepa, then held by Ustaz Nik Abdullah Arshad (also known as Pak Nik Lah). PAS's share of the vote was 15.3 per cent and its share of parliamentary seats dropped to 0.6 per cent, the lowest ever in its history.

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Understanding the Philippines' Economy and Politics since the Return of Democracy in 1986

DANIEL JOSEPH RINGUET and ELSA ESTRADA

This article examines the political and economic reforms since the return of democracy in the Philippines in 1986. The article's main focus exposes the extent to which post-Marcos administrations managed to carry out the necessary reforms in order to re-engage the Philippines as an active participant in the global economy and not just as a mere bystander. Since gaining independence from the United States in 1946, the Philippines has failed to live up to its potential as an economic force in one of the world's most economically dynamic regions. Partly due to the Marcos era and a high level of foreign debt, combined with persistent poverty and insurgencies, the Philippines seemed to have lost direction. This article will show that this is not the case anymore as the Philippines is moving forward to regain its position among Asia's leading countries.

Introduction

According to Stanley Fischer, First Deputy Managing Director of the IMF "among the potential victims of the [Asian] crisis, the Philippines economy performed exceptionally".[1] Considering the turmoil of the events of 1986 and the preceding years, this is an acknowledgement of the hard work and ensuing reforms that had been implemented by the renewed democracy's post-Marcos administrations. The dynamics of the period, beginning with the administration of Corazon Aquino, forms the basis of this article. Most government leaders around the

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world welcomed the Philippines' move away from an authoritarian president to a much-needed return to democracy.

However, as in most transitions, the recovery is often hampered by periods of difficulties, but the Philippines, aided by leaders[2] that are focused and determined to advance the country, is not about to ease up. In its macroeconomic assessment of the Philippines for 2002 the Asian Development Bank (ADB) stated that "despite the economic slowdown of 2001, and security issues in Mindanao [including the events of September 11] the country registered growth of 3.4 per cent in 2001". The ADB added that "reforms to improve both the investment environment and the operating environment for labour-intensive domestic and foreign businesses should be continued. Between 1985 and 1997, the incidence of poverty in the Philippines was reduced from 44.2 per cent to 31.8 per cent. There was some erosion in these gains during the following 3 years as a result of the Asian Financial Crisis".[3] This indicates the great progress made so far, yet further improvements are certainly needed for the country.

This article begins by first giving a summary of the leadership transitions that effectively returned democracy to the Philippines. These transitions in government provided the momentum to push the Philippines towards the 21st century with a renewed quest to re-engage itself into the global economic sphere. The transition from Marcos to Aquino as a result of sheer people power was made possible by the defection of the two most senior military officers at the time, Juan Ponce Enrile and Fidel Ramos. It also ended three years of uncertainty since the assassination of Begnino "Ninoy" Aquino.[4] The transfer of power from Aquino to Ramos demonstrates that the new government was right to take on the task of implementing the appropriate political and economic reforms. However, the Ramos government's efforts were dampened by the succeeding government, led by Joseph Estrada, who managed to take the Philippines a step back from its resurgence. This however has been turned around slightly with the appointment of Gloria Macapagal-Arroyo who took over the leadership when Estrada was impeached on corruption charges.

Second, the paper then goes into the heart of the Ramos era by explaining the extent of Ramos' contribution, as his government re-engaged the Philippines on the world stage, not as a country under a dictatorship, but one with a renewed democratic spirit that had been hidden for years. Ramos used his government's term effectively for the development of the Philippines. Third, the paper further examines the Philippines' economic performance since the restoration of democracy and the role of reforms in this process. This section gives detailed data on the Philippines' economic performance by highlighting

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the stages and rates of growth, and the resurgence of foreign direct investment (FDI) as the processes of reform took shape. Fourth, the effects of the Asian Financial Crisis will be discussed, showing how the Philippines managed to avoid similar trends to that of its neighbours, who recorded negative GDP levels. Lastly, the paper briefly discusses the importance of stability and sustainable growth since the re-introduction of democracy.

Transitional Periods

21 August 1983 marks a very significant day in the Philippines' political history, as Begnino Aquino, Marcos' main political opponent, was gunned down at Manila International Airport. The remarkable events that followed will remain entrenched in the Filipino psyche for years to come. Almost three years later, Aquino's widow, Corazon, aided by rebel soldiers led by Secretary of Defence, Juan Ponce Enrile (who had earlier admitted to "stuffing up the ballot boxes"), Fidel Ramos, Cardinal James Sin and other members of the business and economic élite, claimed victory for the January 1986 Presidential election, which Marcos refused to concede. The "People Power Revolution" that ensued, ended Marcos' hold on a Philippines he subjected to martial rule from 1972 to 1981 under Proclamation Number 1081. In an attempt to justify martial law, Marcos had argued that the security of the nation was under threat from a growing leftist movement.[5]

During her time in office, Corazon Aquino survived seven coup attempts, (the biggest and bloodiest of these in December 1989 almost succeeded)[6] amidst pressure for reforms and the search for and attempt to recover Marcos' plunder, as well as that of his cronies. Naturally, expectations for Aquino were high considering the success of People Power. Her main achievement, apart from the restoration of democracy, has been her ability to unite forces against Marcos. Although the Aquino administration's stabilization policies were initially detrimental to growth and employment, they set the stage for sustained growth. In the words of Henderson:

> ...the Aquino years were basically a transition period, and the former housewife did her best to deal with the complex and challenging economic mess she had inherited. Through no fault of her own, she for the most part failed miserably. Major progress finally began to be made under the strategic leadership of former General Fidel V. Ramos, who basically threw the doors open to foreign investment in an effort to [finally] integrate the Philippines into the global economy.[7]

Following Aquino's term, former General and Deputy Chief of Staff of the Armed Forces, Fidel Ramos won office in a multi-candidate race in

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1992, which included Imelda Marcos (wife of former President Marcos) as a contender. Ramos declared "national reconciliation" his highest priority, laying the groundwork to bring about peace within the Philippines, particularly in the south, which had been affected by Muslim separatist movements. As will be discussed in the following section, the efforts of Ramos' administration in liberalizing the economy have been instrumental in setting the path for reforms. The Philippines finally began to move upwards, improving the economy, reducing the levels of poverty and corruption, and increasing FDI. However, a couple of factors disrupted this optimistic outlook of further growth and development: first, the Asian Financial Crisis of 1997 which slowed down the economy, and second, the impeachment of Ramos' successor, Joseph Estrada, in 2001. To his credit, however, Estrada did continue to pursue most of Ramos's economic policies. Estrada had become president in an overwhelming populist victory, based on promises of eradicating poverty and improving the standard of living of the poor.

Estrada's downfall paved the way for the Philippines' second female president, Gloria Macapagal-Arroyo, daughter of former President Macapagal (1961–65). Macapagal-Arroyo assumed the presidency in January 2001, after several demonstrations reminiscent of People Power 1, following Estrada's impeachment trial. Henderson argues that, "when President Arroyo came in she faced major problems, a devastated economy, a frightening polarization between rich and poor".[8] However, Arroyo's party, LAKAS-NUCP-KAMPI, has since regained its dominance in congress, giving the President the support she needs to pursue the necessary reforms. The new government is heavily engaged in the "eradication of terrorist groups" such as the Abu Sayyaf group who persist in their quest for an independent Islamic state by, among other things, kidnapping foreign tourists for ransom. Whilst the southern Philippines is of great concern, Arroyo must also concentrate on rebuilding the economy and strengthening the democratic process which were so hard-fought for by Aquino.

Reforms Implemented by Post-Marcos Administrations

The return of democracy in the Philippines provided the impetus to carry out fundamental political and economic reforms. The Ramos government inherited a process that had been re-introduced by Aquino who had struggled through her term as the first president of the Philippines' newly restored democracy. Estanislao commented that "the change of presidents in 1992, in strict observance of both the spirit and letter of constitutionality mandated term limits, enabled the new administration to reap the harvests from the seeds already

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planted by and nurtured by the previous administration".[9] Thus, political reforms had to be put into place urgently, at some cost to economic reforms, and Aquino achieved this while risking her own position as president. For example, before the end of her term, Aquino succeeded to push through the significant 1991 *Local Government Code of the Philippines* (RA 7160)[10] that essentially rearranged the distribution of political power that had long been in practice. Not only did Aquino have to commit herself to the restoration of stability, she was also still grieving the tragic loss of her husband Begnino (Ninoy) Aquino. Relieved from her presidential role by Ramos in 1992, Aquino remained highly influential in the reforms that followed. However, Ramos faced a difficult Filipino electorate: having emerged as president with a very slim margin—only 24 per cent of the vote—he was constantly under scrutiny by those who opposed him.

The Challenges

Ramos, who according to Sheridan, "in the 1970's became a member of the 'Rolex Twelve', earning this name because of the Rolex gold watches that Marcos gave each of them",[11] had to persist and maintain political and economic reforms amidst the criticisms of his involvements with Marcos, and his former role in the Philippine Armed Forces. Sheridan adds, "by and large he [Ramos] kept himself remarkably clean in what must have been a hugely difficult task for a patriotic soldier serving a regime which began with much promise and only gradually deteriorated into a corrupt, incompetent and vicious beast".[12] The welfare of the Philippines was in the hands of Ramos and his administration, and he went on to be the driving force behind the Philippines' momentous reforms. As can be seen recently, with the reconvening of the nine-year-old Executive-Legislative Advisory Council on Sabah,[13] Ramos is still highly regarded and is heavily involved in decision-making in the Philippines, working closely with Macapagal-Arroyo. From his first day in office the task of implementing the necessary reforms were somehow difficult; however, Ramos rose to the challenge, immediately going to work for the good of the Philippines. Hutchcroft commented, "in 1992 Ramos began his presidency with fresh perceptions of the country's place in the world and an ambitious agenda to address the challenges of the new era".[14] As will be indicated further, Ramos and his government were never afraid of challenges.

Until Ramos' election the Philippines was often tagged the "sick man of Asia". However, largely due to the Ramos government's reforms, growth went from 0.5 per cent in 1991 under the Aquino administration to 7 per cent in 1996. Exports soared 29 percent in 1995 and a further 16.6 percent in the first nine months of 1996.[15] The Ramos government's

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wide-ranging economic liberalization along with its political reforms paved the way for a change in attitudes towards the Philippines. The Philippines was emerging from the shadows of the Marcos era, the process of re-integrating the Philippines' economy with the rest of the world had begun. Ramos took over where Marcos had failed, as was stressed by Hawes:

> ...attempts by Marcos to solidify his rule and to lead the nation toward a more open economy, in which foreign investment would play a larger role, failed. They were stymied by a combination of factors, including an entrenched group of import-substitution manufacturers, the growing nationalist reaction to foreign domination of the Philippine economy, and the continued power of rural elites who were reluctant to allow any further decentralization.[16]

The Return of FDI and the End of Protectionism

Beginning mainly with the Ramos administration, years of protectionism that bound the country dismantled, untying in the process the shackles of statism and its attendant pervasive corruption.[17] Foreign exchange controls, in place for decades, were scrapped and the Philippine peso freed. Import duties were dramatically reduced to an average of 25 per cent and many trade restrictions are being abolished: in 2003, tariffs are expected to drop to 5 per cent. New foreign banks were allowed to enter the Philippines for the first time since 1948. Industries were deregulated, and many state-run enterprises were privatized.[18] Foreign investment began to re-enter the Philippines, for instance, Singapore's Keppel Group quickly brought in stopgap power barges to fill the power shortages that the Philippines was encountering. Hong Kong's Hopewell Holdings invested in building several large power plants on a build-operate-transfer basis; these will be handed over to the Philippines after 15 to 20 years.[19]

The Ramos administration's controversial closure of the U.S. military bases at Clark and Subic Bay was an extremely important decision taken by the government, suggesting that finally, the Philippines was now the master of its own affairs. Subic Bay, with its strategic location, was once the site of the largest U.S. naval base in foreign territory. Due largely to the Ramos government, it is today a significant economic centre managed by the Subic Bay Metropolitan Authority (SBMA), and is contributing effectively to the development of the Filipino economy.[20] Some 47,000 people were left jobless when the United States pulled out of Subic Bay and today over 65,000 people work in 265 local and international companies that have set up in the area.[21]

In order to attract investment, the *Special Economic Zone Act* was enacted by the Ramos government in 1995, which made way for the

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development of the Philippine Economic Zone Authority (PEZA). PEZA replaced the Export Processing Zone Authority (EPZA), which had operated since 1969. PEZA is responsible for over 40 SEZs and has been instrumental in attracting both international and local investors. PEZA has been an important branch of the government and is assisting in enhancing economic growth. For example, between 1994–2001, employment in the SEZs jumped from 229,650 to 716,990, manufactured goods and products for export increased from US$2.7 billion to US$19.4 billion. It is interesting to note that in 1997 (the year of the Asian Financial Crisis) there was a 63.5 per cent growth in this area. The main investments by product in the SEZs were electronic parts and products (64.3 per cent), electrical machinery (13.8 per cent), and transport/car parts (7.4 per cent). During the period 1995–2001 investments reached P767.6 billion, the most significant year being 1997 with P159.7 billion. A breakdown of investments by nations indicated that 39.6 per cent were Japanese, 17.3 per cent were Filipino, 13.3 per cent were American, and 8.4 per cent were Dutch.[22] The above data clearly indicates that the political and economic measures put in place earlier by both the Aquino and Ramos governments had proven effective.

Reforming a Weak State

The Ramos government moved the Philippines firmly toward industrialization, and its promises of a country that would foster free enterprise and business confidence was maintained. The government improved the peace and order situation, enhanced external defence capabilities, liberalized the economy, brought macroeconomic stability, more foreign investment, a larger role for the private sector, and better economic infrastructure (for example, adequate energy supplies, a good telecommunications network, improved road networks, bridges and ports).[23] Even though the Ramos government made considerable changes, there are still certain problems within the political arena that need to be rectified. Montinola argues that despite its democratic institutions, its relatively long experience with genuine constitutionalism, and its strong civil society, the Philippines continues to exhibit symptoms of unaccountable government, especially an inability to effect meaningful social change.[24] It may be fair to add that patrimonialism is persistent in the Philippines, with politicians regarding public office and the realms it governs as their own personal property.[25] Without comprehensive changes in the political party system, however, the quality of Philippine democracy and its capacity to generate policy changes benefiting the majority of citizens will continue to be compromised by a huge deficit of accountability.[26] The strength of parties, and therefore of public accountability, would be further

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enhanced by radically modifying the current system of proportional representation.[27]

Under the Ramos administration, state intervention in the Philippine economy changed, amidst controversy and congressional opposition that delayed it substantially. The economy moved toward a posture more supportive of economic development and was enhanced, because state and business relations were reformed, and the state's capacity to ward off predatory behaviour strengthened. However, the Philippines needs to become a much stronger state to rid itself of long-standing problems and bring more stability to the country. As was pointed out by Presidential Security Adviser Jose Almonte, cited in Hutchcroft, "hard reforms requiring greater administrative capacity [were] attempted [during the Ramos period]...the weaknesses of the Philippine state are starting to show".[28]

Ramos' efforts in the privatization process have not gone unnoticed. As Patalinghug writes, "the Philippine experience in privatization started with strong intentions and is providing remarkable success...but the surprising lesson...that is worth noting is the relative ease and success in the disposition of public enterprises that were thought to be immune from privatization a decade ago because of vested political interests".[29]

The Economy's Performance and the Role of Reforms

It is widely held that the Philippines' economic performance compared to that of other countries in the region over the past three decades has been disappointing. Since the early years of martial law, the laggard economy endured an almost inevitable decline in growth (Figure 1). As Marcos' leadership began to be tested, the economy suffered, hitting rock bottom as the country slipped into deep recession in 1983. However, the unforgettable People Power I movement of 1986 that ultimately forced Marcos out of office, enlivened the Filipino democratic spirit and cleared the passage for economic recovery. Under the guidance of the Aquino administration, the restoration of democracy led to an almost immediate improvement in the economy's gross domestic product (GDP). This growth was sustained by subsequent governments, except for the effects of the Asian Financial Crisis and the economic slowdown of 2001. Unfortunately, Aquino's efforts were tainted by several coup attempts, as was mentioned previously, thus growth peaked 6.7 per cent in 1988 but dropped to a minimum in 1991.

Driven by anti-Marcos sentiment and the pressing need for economic improvement after the severe 1983–85 recession, the Aquino administration focused its efforts on both political and economic reform. The return to democracy, among other things, reflected the

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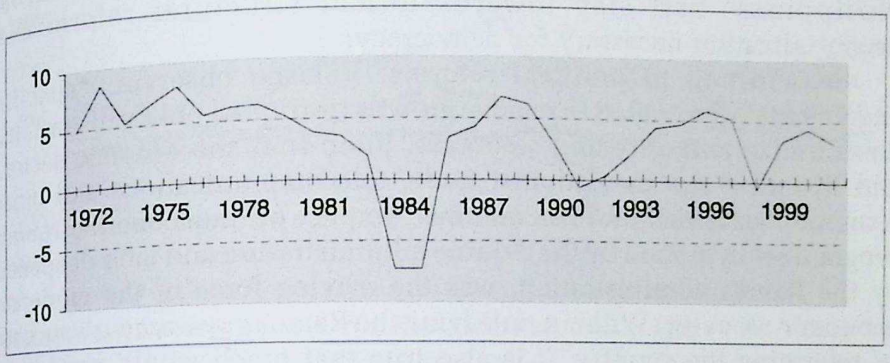
FIGURE 1
Annual GDP Growth, 1972–2001
(per cent)



Source: Asian Development Bank, *Key Indicators*, various issues.

desire to attend to the suffering of the Filipino people caused by years of neglect. Therefore, economic reform was a definite priority in the new governments' agendas. However, due to the proximity of the Marcos crisis, the fresh anti-Marcos sentiment and perhaps Aquino's own desire for revenge for the assassination of her husband, the Aquino administration focused on punishing Marcos' cronies. Substantive economic reforms were not achieved until later in Aquino's term and then intensified by Ramos. Overall, healthy economic indicators improved. This was mainly a result of subsequent governments' efforts to implement both economic and political policies intended to liberalize and deregulate the economy to stimulate the growth of foreign direct investment.

However, to a large extent, the implementation of political reform was necessary before substantial progress in economic reforms could take place. This is partly due to the renewal of a democratic political system and the well established political ties with the economy. Perhaps the most significant political reform since the restoration of democracy was the 1991 Local Government Code. During his presidency, Ramos pushed the Philippine Congress to enact 229 structural laws—79 of which comprised of economic reforms, 85 for social reform and the remaining towards political, electoral, defence and administrative reform.[30] Thus, it can be seen that economic reform was high on the Ramos government's agenda and political reform was still significant. However, the Aquino administration had also addressed the major political reforms such as the Local Government Code previously

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discussed. Rood observes that the implementation of autonomy of local governments stipulated in the 1987 Constitution was in fact a reaction to the fourteen-year authoritarian rule.[31] This new legislation enabled much power to be devolved to local government and marked the Philippines' first step towards formal structural reform and decentralization necessary for democracy.

In addition to political reforms, Velasco observes, "specific enactments were crafted to remove growth-restricting policy distortions, decentralize authority and resources, jump-start the anaemic sectors and liberalize the protectionist trade, telecommunications and other economic activities".[32] The combined impact of the economic reform program set in motion by the Aquino administration and later deepened by the Ramos administration, was the driving force of the moderate economic recovery. Without nullifying the Ramos government's success in reforming the country, it is also true that much would have been learned from the problems faced by Aquino during her term in office. For instance, the Ramos administration was able to resolve certain obstacles that Aquino could not overcome, such as dealing with separatist groups in southern Philippines. Negotiations were held with the Moro National Liberation Front (MNLF) and later the government reached an agreement with the Moro Islamic Liberation Front (MILF).

A significant aspect of the general economic reform procedure has been the resulting surge in foreign direct investment (FDI). Once Marcos was forced out of power, FDI was identified as being an integral ingredient to the long-term sustainable economic growth prospects in the Philippines as it provides a relatively stable source of capital. Furthermore, Cororation highlights that FDI is necessary for three main reasons. First, to provide the necessary foreign exchange that will allow the economy to veer away from a pernicious boom–bust cycle. Second, to increase exports and lastly, FDI raises the productivity of local industries through increased capital, improved technology, and more efficient operations.[33] Once Marcos was forced out of power, FDI was identified as being an integral ingredient to the long-term sustainable economic growth prospects in the Philippines as it provides a relatively stable source of capital.

Post-Marcos governments realized that the long-standing protectionist practices of the Marcos era did not reap the same results as other countries in the region whose economies were booming from the influx of FDI in the late 1980s to early 1990s. During this period, the Philippines' share was significantly less (Figure 2). The poor results of attracting FDI was mainly due to the remnant protectionist policies of the Marcos regime and only changed in 1993. Several factors explain the post-Marcos governments' push for increased FDI flows. A lack of

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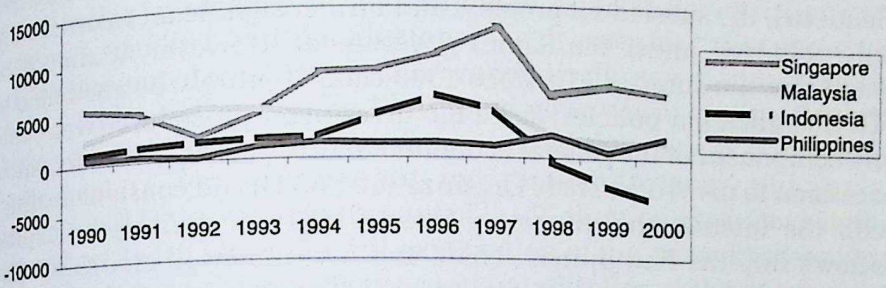
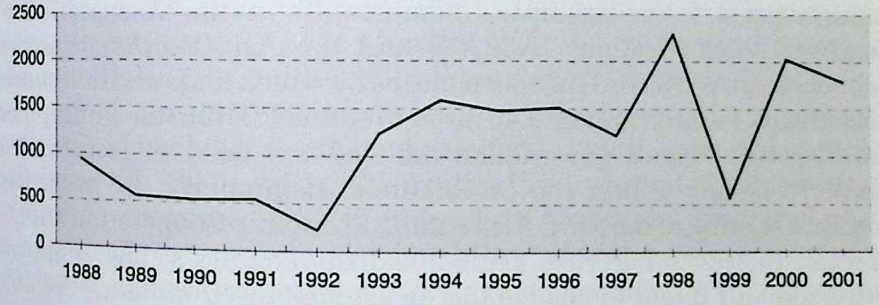
FIGURE 2
FDI Inflows into Selected Southeast Asian Countries
(US$ millions)



Source: Asian Development Bank, *Key Indicators 2002, 2001*

FIGURE 3
FDI Inflows into the Philippines, 1988–2001
(US$ millions)



Note: 2001 figures were derived from IMF, *International Financial Statistics 2002*

government resources and domestic savings made FDI a favoured solution to the country's economic woes. In doing so, a transition from inward oriented policies exhausted in the past two decades, towards a more outward oriented economy was necessary. Figure 3 illustrates the extent to which the change in policies on FDI resulted in the resurgence of investment in the Philippines after 1992.

FDI intensified largely due to the passage of the *Foreign Investment Act* 1991 which effectively liberalized investment by allowing 100 per cent foreign equity in both domestic and foreign enterprise as long as they were not on the Foreign Exchange Negative List (industries in

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which no foreign equity is allowed). Furthermore, the legislation simplified the procedures for registering incoming foreign investment. Although credit must be given to the Aquino administration for drafting the Foreign Investment Act 1991 (that came into effect after the 1992 elections), the substantial progress and further significant reforms were only achieved under the Ramos government. However, it should be noted that the surge in FDI since 1993 cannot entirely be attributed to FDI liberalization policies, since the investment procedures were only one component of the general economic reform package.[34] For instance, accession to the World Trade Organization (WTO) and constant dealings with the International Monetary Fund (IMF) also influenced capital inflows into the Philippines. Trade and investment liberalization has intensified during the last ten years.[35] The impact of the General Agreement on Tariffs and Trade (GATT) and the commitment to currency convertibility under the IMF has influenced the government to break down barriers to international markets. In particular, the implementation of an economic stabilization program prompted by the IMF in 1990 paved the way for investment reforms.

Nonetheless, this policy thrust by the Ramos administration was difficult to reverse partly because it was reinforced by several external commitments.[36] For example, membership in the Association of Southeast Asian Nations (ASEAN) and the Asia Pacific Economic Cooperation (APEC) also generated means by which trade and investment liberalization was encouraged. In order to attract FDI into the Philippines, however, the Ramos government realized the need to improve the country's image within the international community. In particular, Manila's hosting of the third Asia Pacific Economic Cooperation (APEC) Summit in November 1996 symbolized the country's new economic optimism and intent to change the investment environment.[37] Velasco also notes that during the period 1987–95, Congress laid down the necessary political and legal foundation and environment for a firmer and faster economic recovery. The Philippine Congress' three peaceful and orderly elections helped enhance the image of stability and predictability, which induced more investments and economic activity.[38] Unfortunately though, FDI into the Philippines seems to have decreased slightly even prior to the crisis.[39]

Effects of the 1997 Asian Financial Crisis

As the full severity of the Asian Financial Crisis became apparent in late 1997, the Philippines was relatively less affected. However, that is not to say that the Philippines was completely immune from the regional contagion.

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Sicat argues that the Philippines weathered the crisis because it boasted relatively strong economic fundamentals including a reformed financial sector at the onset of the regional crisis. This economic strength was based on several factors particularly the four year fiscal surplus; the reduction of external debt since the mid-1980s; low inflation and improved standing with international credit agencies.[40] For instance, the IMF-supported program of macroeconomic adjustment and structural reforms embarked on by the Philippine government during the late 1980s and early 1990s, enabled it to weather the crisis at a relatively lower cost in terms of output loss, unemployment and social dislocation.[41] However, this account of the Philippine experience in the regional crisis fails to give a full explanation of the inherent reasons as to why it enjoyed these strong economic indicators at the onset of the crisis. Pasadilla argues that the Philippines learned valuable lessons from the more severe crisis during the 1980s. Pasadilla also outlined four main structural reasons why the Philippines was less affected by the Asian financial crisis than its Asian neighbours.[42] First of all, the Philippines essentially learned valuable lessons from previous crises endured over a decade earlier. Its bouts with cronyism during the Marcos regime taught it enough about the dangerous links between vested interests sanctioned by the government and financial and economic mismanagement, a lesson that is now being learned by Thailand, Indonesia and Korea in their democratization process.

Second, the 1983–85 crisis led to a reinvigorated and relatively more stable banking sector and prudent central bank supervision. Following the 1980s crisis, the Philippine government implemented structural reforms "which helped to maintain prudent fiscal management, to promote accountability of the government and to encourage greater political openness and democracy".[43] The passage of the *New Central Bank Act* (RA 7653) that established the Bangko Sentral ng Pilipinas, was a major tool in stabilizing the banking sector and introducing prudent supervision. Third, Pasadilla argued that, unlike other East Asian countries, maintaining strong export ties to the United States proved to be beneficial for the Philippines, as the United States and the European Union have driven world demand.[44] Naturally, this trade relationship originates from the country's links to the United States in the post-colonial period and will continue to grow. Although the United States remains a major export partner for the Philippines, its significance has declined slightly over the years. Lastly, the return to democracy in 1986 yielded an improved system of political succession. "The contribution that comes with clear electoral mandate cannot be underestimated since through it, a credible economic policy can be designed and made to work".[45]

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Pathway to Democracy, Stability and Sustainable Growth

Although the Philippines may have fared relatively well during the crisis, the country still has a long way to go to achieve long-term sustainable economic development. However, the consolidation of democracy by representative governments provides a positive future for its people as a foundation for long-term sustainable growth. With democratic processes in place, the Philippines is in a better position to surely learn from the past, experiment with the present and hopefully reap the rewards in the future. It is important to remember that no matter how much it is desired or even expected, democratization in the Philippines and many developing countries around the world for that matter, is a learning process. Armijo provides a fair summary of the widely accepted three stages democratization.

The first, political liberalization, signifies a loosening of overt authoritarian controls on the exercise of basic civil and civic liberties but stops short of formalizing full democratic procedures. The second, formal transition to democracy, occurs when a country adopts new laws and procedures, marking an official transition to democratic rules. Finally, the third stage of democratic consolidation implies internalization and normative acceptance of the new democratic procedures of all the major political actors.[46]

As the newly appointed transitional political leader, Aquino attempted to lodge the government's polities firmly in stage three before leaving office as she realized the overriding importance of creating a shared normative commitment to the politics of institutionalized compromise.[47] However, not only was it important to consolidate the restored democratic ideals within the political sphere, perhaps even more crucial was public perception, that is, to ease the minds of the voters who may have felt fear and skepticism of certain presidential candidates (including Fidel Ramos) of the 1992 election. This can be seen in the relatively narrow margin with Ramos only obtaining 24 per cent of all the votes. Furthermore, despite the public outrage incited by People Power II, which was no less valid than that of People Power I in 1986, the Filipino people have more confidence in the renewed democratic political system.

It is likely that few in society would argue, notwithstanding the Philippines' economic performance past and present, against a political environment that not only encourages but also demands transparency, the rule of law and governance by the will of the people. As Ramos has stated, "although democracy may make government sensitive to the people's desires, this may be seen as insurance against the opposite: an oppressive government insensitive to the people's needs".[48] Furthermore,

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as Milton Friedman once argued, democracy and development are mutually reinforcing and no person comprehends this more than Ramos. Ramos is undoubtedly the most liberal president the Philippines has had to date and also arguably the most influential advocate of democracy within Asia. The Philippines had a taste of strongman rule and demonstrated their dissent through *vox populi*. Now, the Filipino people have returned to democracy and are using it as a vehicle of political, economic and social development.

Conclusion

Since the restoration of democracy in 1986, the economy and politics of the Philippines has naturally encountered some difficulties, yet at the same time, this has definitely not been a futile experience. People Power I was a public outcry of dissent against Marcos' leadership and effectively caused a change in attitudes by shifting the attention to the needs of the people that had been neglected for so long. Thus, beginning with Aquino, subsequent governments focused their efforts on improving the Philippines' economic, political and social conditions and reaching its full potential. For example, Henderson states, "according to Hong Kong's Political and Economic Risk Consultancy (PERC) the Philippines is the only Southeast Asian nation besides Singapore with a labour force with the potential to move beyond a manufacturing focus to a higher value-added level. PERC ranks the Philippines as 4th in Asia on quality of labour force (trailing only Japan, Taiwan, and Singapore".[49] However, Ofelia Bulaong, Governor of the Board of Investments (BOI) argues that the Philippines "can no longer boast of having the cheapest labour in Asia...Filipino workers are known to be well-educated, hardworking, highly skilled with excellent English speaking skills, and most important highly productive".[50]

In addition to highlighting the Philippines' economic potential, which has yet to be entirely realized, this paper has demonstrated the difficulties encountered by the new governments of the restored democracy, particularly those of Corazon Aquino and Fidel Ramos. Subsequently, the paper has highlighted the effectiveness of the political and economic reforms pursued by the Ramos government determined to guide the country and its people in overcoming the relentless struggle that it had endured as a result of the many poor policies that were implemented by Marcos. The importance of the re-entry of FDI, sustained economic growth and stability was also discussed and as a result of these reforms and the ensuing improvements within the country, the paper has shown the Philippines has regained the confidence of many

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of its trading partners and foreign investors. With the consolidation of democracy, the stage has been set for the Philippines to assert its position alongside other Asian nations. At the same time, it is not a time for complacency; the current government must continue the process of reforms and the sooner it overcomes the instability of southern Philippines, the sooner the Filipino people can unite to enjoy long-term sustainable growth.

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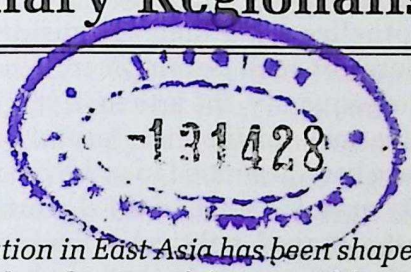
Contemporary Southeast Asia, Volume 25, Number 2, August 2003

ASEAN Plus Three and the Rise of Reactionary Regionalism

MARK BEESON



The course of regional integration in East Asia has been shaped by a complex mix of internal and external factors. Although the emergence of initiatives like "ASEAN Plus Three" appears to indicate that East Asia is assuming a more independent and regionally-oriented place in the international system, this paper argues that the future trajectory of ASEAN Plus Three, and of the region more generally, will continue to be constrained by internal tensions and—especially—by the continuing influence of the United States. In short, for the foreseeable future, East Asia will be marked by a form of "reactionary regionalism" in which regional initiatives are designed to mediate and moderate external influences.

Introduction

It has become something of a cliché to observe that supposedly "global" processes are in fact marked by striking regional biases. While the economic and political manifestations of this phenomenon are most pronounced in the European Union (EU), greater integration and co-operation at a regional level has become a characteristic of contemporary transnational relations in the Americas and East Asia as well. In short, while we may be living in an era dominated by the idea of globalization, the reality is that global forces are powerfully mediated by regional factors with the consequence that "globalization" looks very different in various parts of the world.

This article is primarily concerned with the way in which the countries of East Asia have responded to this global–regional dialectic.

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Yet even to speak of "East Asia" is to make a number of initial assumptions about the validity of what is arguably an arbitrary geographical demarcation, and about the possible existence of a regional identity that is, in itself, contestable and uncertain.[1] For one of the most noteworthy characteristics of regionally based developments in East Asia is that—at the overtly political, intra-regional level, at least—such developments are of relatively recent origin and reflect evolving processes, the outcome of which is inherently uncertain. The intention of this article is initially to make some suggestions about how different regional experiences can be conceptualized and then to consider the factors that will determine the course of such developments in East Asia.

Consequently, the article is organized in the following way: first, I consider some of the more useful and important theoretical insights that have been generated in order to explain regional processes. Second, I briefly examine some of the distinctive and specific historical factors that have shaped political, economic and strategic developments in East Asia, as these provide both the bedrock for, and a potential constraint upon, contemporary regional initiatives. Finally, I look more closely at the evolving nature of regional processes in East Asia generally and at the ASEAN Plus Three initiative in particular. The central argument that I advance is that regional initiatives in East Asia have been driven *and* constrained by a complex array of contingent internal factors and powerful external influences in surprising and unpredictable ways. The influence of the United States has, I contend, been extremely important in this regard, and its direct and indirect interventions in East Asia look likely to continue defining the overall context within which East Asian regional processes unfold. As a consequence, East Asia has been characterized by a form of "reactionary regionalism", in which regional initiatives have frequently been both a response to external events and designed to mediate and moderate their impact.

East Asian Regionalization in Historical and Theoretical Perspective

The terms regionalism and regionalization are frequently used more or less interchangeably, but it is helpful to make a distinction between the two. Many analysts of regional processes distinguish between those processes that are the largely uncoordinated consequence of private sector-led economic integration—regionalization—on the one hand, and those processes of regionally based co-operation and co-ordination that are the self-consciously driven consequences of political activities—regionalism—on the other.[2] This is a useful distinction because it

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serves as an important point of comparison and explanation both within individual regions, and between regions in different parts of the world. As we shall see, "East Asia" has, until fairly recently at least, been marked primarily by a process of regionalization in which external economic forces have played a major role in encouraging integration. Regionalism, or formal political initiatives and agreements, has tended to follow in their wake—a quite different experience in some important ways from that of Europe. To understand the very different sorts of outcomes that have distinguished regional processes in East Asia from those of Europe or Latin America, it is necessary to put the region's development in its historical context.

At the outset, it is worth making a few elementary comparative historical points as they remain important and help us to account for the different development experiences and challenges that characterize the contemporary international political economy. In this regard, it is important to emphasize that the remarkable economic transformation that has occurred in much of East Asia notwithstanding, much of the region continues to confront the particular challenges of "late" development and the specific constraints that implies. The historical expansion of capitalism from Western Europe and latterly the United States not only conferred significant "first mover" advantages on those regions and/or countries but—as an inevitable corollary of this process—they also placed major structurally embedded development hurdles in the path of the countries of East Asia.[3]

To accelerate the pace of development in a world already dominated by established industrial powers, East Asia generally, and Japan in particular, famously pioneered the "developmental state", in which national governments guided the course of development with the help of an array of what were generally highly effective policy tools. The story of the region's remarkable economic expansion and the sequential development process that moved from Japan, through South Korea and Taiwan, and into Southeast Asia and latterly China, is well enough known to need little rehearsal here.[4] There are, however, a number of features of this historical legacy that merit emphasis as they continue to shape the region's contemporary development experience, the domestic political economies of the region, as well as the region's relationships with other parts of the world.

War and Peace in East Asia

One of the defining aspects of the East Asian experience has been the region's incorporation into the Cold War security architecture that dominated the international scene for over four decades following

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World War II. In this context the United States, unambiguously revealed in the war's aftermath as the dominant power of the era, played a critical role. Whereas in Western Europe American hegemony was instrumental in promoting closer European integration as a response to the apparent threat of communist expansion,[5] in East Asia, the United States' preference for a series of "hub and spoke" bilateral relations with its allies on the one hand, and its implacable hostility to communist rivals on the other, had the effect of fracturing the region and making any kind of region-wide integration or identity impossible.[6] For those nations fortunate enough to be on the "right" side, however, the Cold War offered the prospect of accelerated development via direct American aid, and a tolerant attitude to political practices and economic relationships which U.S. policymakers might not otherwise have approved of.

The continuing "war on terror" is, therefore, the latest in a long line of regional strategic crises that have had their origins in wider external conflicts, but which have had a major impact on East Asia's development and sense of regional identity. It is important to note that the very idea of a distinct Southeast Asian region, which ultimately provided a basis for the original ASEAN grouping and the subsequent ASEAN Plus Three initiative, was itself an artefact of British military planning during World War II.[7] Indeed, as Charrier has persuasively argued,[8] ASEAN did not so much create a Southeast Asian political space through its actions, as "indigenize" an existing one that had been given de facto expression by the activities of the colonial powers. Similarly, the crucial impact of the Cold War period was to entrench external influences by dividing the East Asian region along ideological lines. Consequently, not only was there little possibility of extensive, intra-regional relations developing across East Asia as a whole, but even where greater regional co-operation occurred, it was limited and reactive. The inauguration of ASEAN itself, for example, may have been largely motivated by a desire to contain and institutionalize otherwise brittle relations between Indonesia and Malaysia,[9] but its membership and goals were constrained by the overarching reality of the wider conflict between the major powers: the Soviet Union, the United States and East Asia's emergent great power, China.

The ending of the Cold War appeared to open up new opportunities for intra-regional co-operation and confidence building in East Asia. Yet there are still major potential constraints on what can be achieved—an underlying reality given renewed prominence by recent events and the United States' direct strategic intervention in the region. Most fundamentally, perhaps, the predominantly bilateral security architecture established by the United States in East Asia during the

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Cold War shows little sign of shifting to a more multilateral structure, the development of the ASEAN Regional Forum (ARF) notwithstanding. For as Simon notes,[10] ARF contained the same sorts of inherent tensions between the activist, legalistic "Westerners" and the more consensually-minded East Asians that APEC did. Indeed, it is revealing that both the United States and Australia have endorsed the doctrine of pre-emption in responding to the threat of terrorism, rather than attempting to work through more multilateral channels. The United States' rather heavy-handed interventions in Indonesia, the Philippines and on the Korean peninsular, despite the problems this has created for the respective governments of these countries, serve as a powerful reminder of the extent of United States power and the limitations of regional co-operation.[11]

A number of points merit emphasis from this very brief consideration of East Asia's overall security situation. First, recent events serve as powerful reminders of the enduring strategic tensions in the region. Second, and flowing directly from the first point, the possibilities for regional co-operation will be constrained by strategic concerns, especially the role of the United States in the region. It is important to emphasize that for all the United States' sometimes overbearing and insensitive behaviour, most of the region—China is the obvious exception—continues to give rhetorical support for, and actually desires, American engagement; the potential impact of an American withdrawal on the regional balance of power, especially between Japan and China, is still a major constraint on the region's ability to act independently of the United States.[12] There are a number of unresolved security tensions in the region, most obviously revolving around China's strategic ambitions and its claims for the Spratly Islands, the continuing stand-off on the Korean Peninsular, to say nothing of a number of other disputes between the ASEAN countries,[13] which mean that America is seen by many regional players as a decisive and stabilizing influence. In such circumstances, the degree of autonomy available to individual countries is highly constrained, and the possibility of developing an encompassing East Asian perspective that differs markedly from the United States' goals is reduced as a consequence.

Consequently, the final point to emphasize is that in the seemingly likely event that strategic concerns generally, and the "war on terror" in particular, remain prominent parts of intra and inter-regional relations, then the United States and its actions will continue to be pivotal constraints on the course of regional development. If the United States continues a shift from a benevolent form of hegemony in which it enjoys broad support for enlightened policies and the provision of important collective goods, to a more coercive form of hegemony in

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which America unilaterally pursues its own narrow national interests with or without widespread support, it will present a major challenge to East Asia.[14] Having said that, it is also becoming increasingly apparent that American policy is effectively alienating, or at the very least, making life extraordinarily difficult for formerly stalwart allies. The new South Korean government of Roh Moo Hyun for example, initially expressed popularly supported criticisms of American policy that were seen to be destabilizing relations with the North, before opting to send troops to take part in post-war reconstruction in Iraq.[15] Likewise in Indonesia and the Philippines, there has been widespread unease about America's rather heavy-handed interventions in regional affairs, something that has effectively undermined ASEAN solidarity.[16] Even in Japan, the population has been sufficiently unnerved by some of the apparent consequences of American policy to spark an important debate about the nature of Japan's own policies as a consequence. Thus far, there has been little attempt to develop a regional response to recent events, and given the disparate national interests and impact of such events, it is not clear what such a policy would look like. However, if the "war on terror" goes badly, and if East Asia is generally seen to be damaged by events over which it has little control, then it is not inconceivable that a new, more inclusive calculus of the region's strategic interests may emerge.

U.S. Hegemony and East Asian Political Economy

The evolution of, and prospects for, emergent institutions like ASEAN Plus Three will be shaped both by these enduring political and economic historical realities, and by the way that the East Asian region more generally is incorporated into a wider international order. In addition to the strategic constraints and pressures noted above, East Asia must contend with the challenge of integration into the increasingly pervasive and interconnected international political economy. It is important to emphasize that this is a system dominated by America and its institutional allies, because some of the most influential accounts of the new regionalism are predicated upon assumptions about the supposed decline of American hegemony.[17] In such conceptions, America's waning influence opens up a space for new centres of power to emerge, centres which, following the EU exemplar, are more likely to assume a regional rather than a national focus. Indeed, it is no coincidence that the "declinist" view of American power was prominent during the 1980s when East Asia's general stellar economic performance eclipsed the United States' and gave rise to concerns about "imperial overstretch" and the end of American pre-eminence.[18] Despite the fact that there are still grounds for remaining sceptical about the overall health of the

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American economy,[19] the status of the United States in the international system has been transformed, leading to triumphalist predictions of a second American century,[20] and further constraining East Asia's reactionary regionalism.

Clearly, there is a good deal of uncertainty about the extent and intent of American power at present, and there is no intention of attempting to provide an exhaustive account of U.S.-East Asia relations here.[21] However, the United States' dominant and increasingly assertive position, especially but not exclusively in the strategic sphere, means that the development of East Asian regionalism cannot be understood without some reference to American power. The key point to emphasize here is that assumptions about the supposed decline of American power—the anaemic recent performance of the American economy notwithstanding—look overstated and premature.[22] The United States has long used its dominant position in the emergent architecture of global governance it helped to create and maintain to promote a market-centred, neoliberal reform agenda that was fundamentally at odds with the sort of state-dominated economic orders that prevailed in East Asia. While there may be some debate about how successfully these normative and ideational aspects of American hegemony have been inculcated throughout the East Asia and elsewhere,[23] the key consideration as far as East Asia is concerned is that America's reformist goals have been supported by the international financial institutions (IFIs) and have consequently had the effect of accelerating structural change in the developmental states of the region.[24]

The potential implications of neoliberal reform for the states of East Asia cannot be overstated. In a series of original and important articles, Kanishka Jayasuriya has demonstrated that the distinctive political economies of the region are being steadily transformed as the region's overall integration into the wider international system evolves.[25] What he describes as the "embedded mercantilist" regimes of the region,[26] in which powerful, domestically oriented political and economic coalitions have been able to use their influence to create and sustain policies that protect them from external competition, have been increasingly undermined by policy initiatives designed to promote economic openness and competition. Significantly, as Jayasuriya points out, such regimes were not directly threatened by the sort of "open regionalism" that predominated under the auspices of institutions like the Asia Pacific Economic (APEC) forum, where trade liberalization was ultimately a unilaterally determined process, and where states retained the possibility of making side deals with adversely affected, but influential domestic coalitions. In the post-crisis environment, however, in which the United States has played a much more assertive

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role, the ability of states to maintain this bargain has diminished. Not only have the overall capacities of states been eroded by a combination of structural changes that have undermined formerly powerful policy tools,[27] and widespread ideological support for "appropriate" reform, but the re-emergence of security concerns have further constrained regional autonomy and made the development of a unified regional position more complex.

The combination of state intervention, authoritarian rule and the attempted cultivation of a domestic capitalist class that was capable of taking on or—more often—domestically supplanting established transnational capital, had the effect of entrenching indigenous political and economic élites and institutionalizing particular forms of rule or governance. Such institutionalized relations are not only "sticky" and thus resistant to rapid reform, but they also delimit the range of possible social practices or relationships that are feasible in particular circumstances.[28] Two further points flow from this: first, there has always been a potential for in-built resistance to the sort of neoliberal reforms that have latterly been championed by the United States in particular and by international financial institutions like the World Bank and the International Monetary Fund more generally—something that helps to account for the often fractious relationship between the United States and the region. Second, even if East Asian governments had been enthusiastic about the prospect of neoliberal reform—which they frequently were not—there are limits to their ability to implement them.[29] A key factor behind the successful development of a single market, the establishment of a common currency and the more generalized process of deeper political integration and sovereignty pooling that has distinguished the European Union has been the existence of a "thick" infrastructure of non-state institutions and actors that were capable of facilitating new forms of increasingly market-centred governance.[30] In East Asia, by contrast, in the absence of a similarly developed non-state sector or civil society, the state has of necessity been a more prominent actor.

The distinctive role of the state and the highly politicized nature of business activities across much of the region not only distinguish East Asian economies from those in other parts of the world,[31] but they present a potentially significant point of friction between the region and key external actors like the United States and the IFIs. In such circumstances, an effective regional organization that contains the largest economies of the region, and which has the capacity and desire to promote indigenous strategies with which to accommodate global processes, is potentially highly attractive. It is precisely such a

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role that ASEAN Plus Three could fill; whether it will realize its potential is dependent on a complex mix of internal and external factors.

ASEAN Plus Three: Its Antecedents and Prospects

In this section I examine the forces that have encouraged the development of the nascent ASEAN Plus Three grouping, which includes the much larger economies of Japan, China and South Korea in addition to the ten ASEAN members. The picture that emerges is complex, uncertain and rapidly evolving, but one tentative conclusion appears plausible: formerly quiescent strategic considerations, the absence of which allowed a greater degree of autonomy to develop within East Asia, have resurfaced and look set to play an important role in shaping and delimiting the possible trajectory of East Asian regionalism. A further caveat needs to be added to this claim: the impact of strategic considerations is itself potentially contradictory and will ultimately depend on a number of imponderable strategic developments—especially those revolving around American foreign policy—and the region's capacity to develop collective responses to them. At this stage, all we can do is spell out some of the potential contradictory dynamics that are likely to underpin future developments and link them to the region's specific historical circumstances.

Regional Factors

The most important antecedent of ASEAN Plus Three is, of course, ASEAN itself. Although ASEAN has provided an important foundation for the development of a wider East Asian grouping, there are some important differences in the formative dynamics of both groupings that merit brief emphasis. ASEAN, as noted earlier, was very much a product of the aftermath of the decolonization process, the Cold War, and the great power contestation that continues to grip the region. Regionalization—or the private sector-driven economic integration manifest in denser trade and investment flows—was not a decisive force in encouraging closer political co-operation in Southeast Asia. On the contrary, intra-regional trade is still modest between the non-complementary and essentially competitive economies in most of ASEAN.[32] It is important to remember that ASEAN is composed of a number of small economies, the structure and development of which have been profoundly shaped by colonialism and latterly by the activities of more powerful economic and political forces from outside Southeast

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Asia.[33] In other words, there have been integrative forces encouraging economic regionalization, but these have emanated from countries like Japan,[34] which are outside the smaller ASEAN grouping and are an expression of wider East Asian forces. At the level of regionalization, therefore, an expanded ASEAN Plus Three grouping that takes account of such pan-regional forces makes intuitive sense.

Yet one of the distinguishing characteristics of East Asian regionalization is that it has a relatively low profile. Of the three major drivers of economic integration identified by Dajin Peng[35]—regional production networks, ethnic business networks, and subregional economic zones—none has the sort of visibility associated with initiatives like the creation of a single market in the European Union. However, this "informal" style of integration has provided a rationale for a more explicit political corollary as the countries of Southeast *and* Northeast Asia come to recognize that their economic interests may be advanced through enhanced regional co-operation. The underlying logic of the broader East Asian region's multi-tiered developmental experience, in which Japan pioneered an industrialization process that spread initially to South Korea, Taiwan, and then onto Southeast Asia and China, has led to a flurry of initiatives designed to consolidate regional integration. The ASEAN Free Trade Area (AFTA), for example, reflected Southeast Asia's incorporation into region-wide production networks.[36] More recently, both Japan and China have moved to consolidate their economic relations with Southeast Asia through bilateral trade agreements.[37]

Plainly, competition rather than co-operation between Japan and China—as they attempt to realize their respective regional leadership ambitions—may have a good deal to do with such initiatives.[38] However, the attempt to enhance regional autonomy by institutionalizing and increasing intra-regional trade and investment is also a reflection of a more fundamental and enduring reality: the East Asian crisis and its aftermath dramatically brought home to East Asia's political and economic élites just how dependent they are on external markets and how vulnerable they are to outside political pressures. The crisis was consequently a watershed at a number of levels and led to a number of crucial political and economic initiatives that have given impetus to the ASEAN Plus Three project.

The Crisis and Its Aftermath

The economic and political crises that struck East Asia generally and South Korea, Thailand, Malaysia and Indonesia in particular toward the end of 1997, have been sufficiently analyzed now to need little

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elaboration here.[39] There are, however, a number of aspects of the crisis that have accelerated and helped determine the subsequent course of regionalism in East Asia which are important to highlight.

Perhaps the most significant long-term impact of the crisis was to fundamentally transform established perceptions of the region itself. On the one hand, this was manifest in the panic-stricken exit of mobile capital from the region, as a number of key countries went from being "pin-ups" to "pariahs" in a matter of months as far as the "international investment community" was concerned. A handful of emerging market fund managers, who controlled vast amounts of mobile capital, were instrumental in initially reinforcing and then puncturing the myth of the "Asian miracle". On the other hand, this transformation in external perceptions fed into a painful but ultimately overdue internal reassessment of the costs, benefits and basis of integration into a global economy in which rapid capital movements were not only frequently of a vastly greater scale than individual national economies, but which were inherently unpredictable and destabilizing.

Two crucial sets of questions emerged from the crisis which have been central components of subsequent debates about the course and content of East Asian regional integration as a consequence: first, on what basis should the countries of East Asia be economically integrated into the wider global economy? Is it possible for East Asia to develop regulatory mechanisms that might insulate their distinctive forms of state-led economic organization from the undesirable economic *and* political impacts of participation in the global political economy, while allowing them to take advantage of its benefits? Second, is it possible to create a regional political architecture which would allow regional élites to promote their preferred visions of transnational co-operation whilst simultaneously preserving regional autonomy? This latter question is crucial because one of the most remarkable and revealing aspects of the crisis was the way it was managed: not only were external actors like the IMF and the U.S. Treasury Department the most prominent players in crisis management, but they took the opportunity to push for precisely the sorts of neoliberal reforms they had championed for years to little avail prior to the crisis itself. In other words, the crisis revealed both the continuing vulnerability of the region as a whole to external leverage and the lack of a regional capacity to manage such events.

Consolidation or Conflict?

It is important to emphasize that the idea of a specifically East Asian grouping to represent the possible collective interests of the region is

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not new or something exclusively associated with the crisis and its aftermath. On the contrary, Malaysian Prime Minster Mahathir Mohamed has long called for the establishment of such an organization. Significantly, however, Mahathir's proposed grouping, the East Asian Economic Caucus (EAEC), was frustrated by a combination of U.S. opposition and a directly consequential Japanese ambivalence.[40] Equally significantly, ASEAN Plus Three has continued to develop momentum despite the fact that it is essentially Mahathir's vision in another guise.

In some ways this should come as no surprise: despite the frequently noted diversity of the East Asian region, Richard Stubbs argues that there are a number of commonalities—the experience of warfare, "Asian values", common institutions, a distinctive brand of capitalism, and deeper economic integration—which provide ASEAN Plus Three with a potential basis for regional identity and consolidation.[41] Moreover, the members of ASEAN Plus Three had already begun to forge common perspectives through inter-regional initiatives like the Asia-Europe Meeting (ASEM). Indeed, the fact that such an exclusively East Asian grouping appeared a more "natural" expression of an identifiable region reveals how misconceived those analyses which continue to focus on a wider "Asia-Pacific regionalism" actually are.[42] One of the principal reasons that APEC has failed to fulfil the hopes of its supporters has been its inability to accommodate and represent the very different "Asian" and "Western" impulses contained within it.[43] The key question for ASEAN Plus Three is whether the sorts of initiatives it has undertaken will be able to build more successfully on its putative regional identity.

In this context, it is revealing that some of the more significant initiatives undertaken within broadly ASEAN Plus Three auspices have been of a fairly technocratic nature. Nevertheless, there is much at stake for both intra and inter-regional relations, as the United States' effective veto of Japan's original proposal for an Asian Monetary Fund (AMF) demonstrates.[44] This rather heavy-handed intervention in the region's affairs might have been read as an example of an emergent, more coercive form of hegemony, designed to impose neoliberal reform on a part of the world associated with very different patterns of economic organization.[45] Revealingly, however, it seems that AMF-style initiatives are not being held up so much by a lack of regional economic capacity, but by doubts on the part of those that might be called on to underwrite such a scheme.[46] In this context, China and Japan's accession to IMF conditionality for any future currency swap arrangements are emblematic of a more pervasive and diffuse form of hegemony in which the interests of financial capital have become increasingly influential, placing major limitations on the precise nature of any distinctive regional response to financial sector reform.

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To understand this possible obstacle to the development of an encompassing regional policy position, and the inherent conflict of interest between the region's wealthier and poorer countries it reveals, we need to distinguish between the financial and "real" economies. Global finance is the area of international economic activity that has gone furthest in becoming footloose, stateless and increasingly geared to a transnational regulatory framework.[47] Revealingly, and despite the clear evidence about both the impact that highly mobile capital flows have had in precipitating and intensifying the East Asian crisis, there has been little serious attempt to curb such initiatives or establish different, specifically East Asia regulatory regimes.[48] True, there are formidable technical obstacles that make establishing currency swap arrangements difficult,[49] particularly given the lack of governmental capacity amongst some of Southeast Asia's less developed countries,[50] but there would seem to be a more basic alignment of interests across the *international* financial sector that makes regional solidarity inherently problematic. In this regard, the Chiang Mai initiative of 2000, which was designed to promote regional financial crisis management, may have had a "symbolic importance [that] is hard to overestimate",[51] but thus far, it has been of little practical significance.

At the level of the real economy, however, where the distinctive structure of East Asian business and the close links between economic and political élites makes reform more visible, direct and potentially painful, resistance to change is more pronounced and the incentives for regional co-operation to protect broadly similar regional political and economic structures may be greater. The outbreak of intra-regional trade agreements, which have the capacity to accommodate powerful domestic constituencies, becomes easier to understand in this context. Moreover, as John Ravenhill notes,[52] preferential trade agreements may have symbolic importance that go beyond their economic worth as they help to consolidate underlying regional relations. The way such contradictory sectoral and national tensions may work themselves out can be seen in the case of Japan: although the financial sector has been increasingly liberalized—often despite, rather than as a consequence of, the wishes of Japanese officials—the government has shown an ability to maintain a degree of insulation for a number of politically powerful constituencies in the real economy through an array of restrictive trade agreements.[53] However, the fact that these trade initiatives are happening predominantly at the bilateral level, or have been bolted on to existing structures like AFTA, suggests that there are still major obstacles to the development of region-wide agreements of a sort that could give greater credibility to ASEAN Plus Three.

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Concluding Remarks

Given the number of political, economic, and strategic variables currently in play, it is wise to keep in mind Yogi Berra's sage advice about the dangers of prediction—especially about the future. However, it is possible to identify key dynamics that are likely to shape regional outcomes and extrapolate from existent trends.

The first general observation to make about ASEAN Plus Three is that, like other regional organizations such as APEC and the narrower ASEAN grouping, it promises much, but has arguably delivered relatively little so far. Like ASEAN and APEC, ASEAN Plus Three is displaying signs of institutional consolidation, and has spawned a plethora of Summits, Senior Officials Meetings, and working groups in areas such as finance and trade, political and strategic co-operation, as well as energy and environmental co-operation.[54] Such initiatives clearly help to give institutional ballast to the region, build confidence and identity, and may ultimately prove to be important parts of an effective regional institutional infrastructure. At present, however, they are more reminiscent of the, possibly well-intentioned, efforts of APEC to promote economic reform and facilitate integration through the establishment of functionally-oriented working groups and the like. Like APEC, ASEAN Plus Three's adherence to the "ASEAN way" of consensus and voluntarism,[55] and lingering concerns about establishing a powerful secretariat that might ultimately threaten national autonomy is also likely to make the development of effective and binding regional initiatives much more difficult.

This leads to a second consideration: East Asia's diversity makes co-operation inherently more complex and challenging than it does in the EU, for example, where similar levels of economic development and integration into regional and international systems give rise to potentially similar interests. In East Asia, by contrast, not only are there profoundly different levels of development, modes of governance and potentially disparate policy perspectives as a consequence, but the regional mega-economies of Japan and China are also integrated into the global economy in ways that make the identification, let alone the implementation, of common policy positions inherently problematic. This is not to say that there are no important historical forces that might encourage greater regional economic and even political co-operation; plainly, there are. But whether the desire for a greater sense of regional identity can overcome the different policy positions that fundamentally different economic structures generate, to say nothing of overcoming the long-standing regional rivalries that exist between Japan and China, is a moot point. A third, and arguably

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most significant potential influence on the course of East Asian development emanates from outside the region.

The United States—directly or indirectly—continues to exert a critical influence on East Asian regional development. Significantly, the effect of American influence appears to vary across issue areas: while America's intervention in the region's post-crisis development had the effect of accelerating the process of regional political and economic co-operation, the United States' "war on terror" has revealed deep fault-lines across the region as individual country's most fundamental interests and policies are subjected to searching examinations and pressure. In such circumstances it has proved impossible to develop a region-wide response to American actions. The strategic bilateralism that characterized the Cold War era continues to influence national responses and constrain regional initiatives; the only question is whether such constraints will ultimately spill over into the economic sphere and make even that aspect of regional integration less feasible. In the short term, at least, it seems safe to predict that the trajectory of East Asian regionalism will continue to be profoundly influenced by American actions and essentially reactive as a consequence.

NOTES

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Conflation of Piracy and Terrorism in Southeast Asia: Rectitude and Utility

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Since 11 September 2001, the conflation of "piracy" and "terrorism" in Southeast Asia has become common in the mass media and government policy statements. The root causes and factors which enable piracy and terrorism are indeed similar, and the perpetrators' tactics overlap at the high end of piracy, i.e., ship seizure and hostage taking. However, the objectives of pirates and terrorists are different, and solutions should be fitted to the particular problem. Responses include self-help and foreign naval assistance. But patrols or pursuits by foreign navies in Southeast Asian waters would raise sovereignty concerns. Thus foreign assistance in the building of indigenous maritime enforcement capacity appears to be a more viable long-term solution.

Introduction

In March 2003, the *New York Times* reported attacks on several chemical tankers in the Strait of Malacca region by assailants with automatic weapons.[1] Two of the ships were sprayed with bullets, while another was boarded silently. While some attributed the attacks to "terrorists", it was later revealed that the perpetrators were apparently only after equipment and other valuables. In other words, they were "pirates", albeit unusually violent ones. A significant portion of piracy incidents worldwide occur in Southeast Asia.[2] And since the events of 11 September 2001, the conflation of "piracy" and "terrorism" has become common in the mass media and government policy statements, both within and outside the region.[3] But piracy and

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terrorism may have different causes, objectives and tactics and thus may require different responses. This paper examines the rectitude and utility of the conflation of "piracy" and "terrorism" into a single general threat to maritime security.

The precise definition of "piracy/pirates" and "terrorism/terrorists" has been problematic for national and international policy-makers alike. The standard international legal definition of piracy is that used in the 1982 United Nations Convention on the Law of the Sea (1982 UNCLOS), Article 101, which was in turn borrowed from the 1958 United Nations Convention on the High Seas.[4] Here piracy is defined as violence on the high seas, that is, beyond any state's territorial waters. The obvious problem with this definition when applied to Southeast Asia is that most sea robberies occur in territorial waters. Thus such incidents are not legally considered piracy. There is therefore no international agreement regarding prevention of, and enforcement against, most "maritime violence" or "sea robbery", and arrest and prosecution is dependent on the state in whose jurisdiction the crime occurs. The process is further complicated in Southeast Asia because uncertain or unresolved boundaries complicate the question of legal jurisdiction over the crime.

To address these problems, the International Chamber of Commerce's International Maritime Bureau (IMB) has defined piracy as "an act of boarding or attempting to board any ship with the intent to commit theft or any other crime and with the intent or capability to use force in furtherance of that act".[5] This very broad interpretation includes almost any violence at sea. We will use the IMB definition as a working definition of piracy for this paper.

Terrorism is also a complicated concept and definitional consensus has been difficult. For the purposes of this paper the working definition for maritime terrorism is that of "political piracy"[6]: "...any illegal act directed against ships, their passengers, cargo or crew, or against sea ports with the intent of directly or indirectly influencing a government or group of individuals".[7] This definition does not address issues such as state sponsored terrorism, and criminal activity associated with terrorism, but it will suffice as a working definition.

Piracy and Maritime Terrorism: A Typology

Piracy

Maritime raiding in Southeast Asian waters dates back to the earliest maritime polities like Srivijaya, Malacca, Aceh, Johor, Makassar, and Sulu.[8] "Piracy" was a complex socio-political-economic activity whose legitimacy was often justified by trade rivalries and even warfare. The

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political aspects of this early "piracy" are not easily understood in the Western context. The closest equivalent was the privateering undertaken with approval from rival maritime states in the seventeenth and eighteenth centuries, or the activities of piratical petty states that dotted the ancient Mediterranean.

Thus the "pirates" of Southeast Asia did not often fit the "Blackbeard" criminal image. Trade was a vital dimension of maritime polities in Southeast Asia, much as it is today, and protecting that trade, or destroying the trade of one's rivals, was a political as well as an economic tactic. Moreover, the political, economic, and social aspects of maritime raiding played important roles in many cultures.[9] However, by the late nineteenth century, large scale maritime raiding or "piracy" was largely eliminated in Southeast Asia by European colonial powers. Nevertheless, it was never completely eradicated and in recent years has made a spectacular comeback, although it is certainly not state-supported.

Reported incidents of piracy worldwide have dramatically increased over the last 5 years, peaking at 469 in 2000. A significant portion of these incidents occurred in Southeast Asian waters, increasing from 22 in 1997[10] to 164 in 2002. Indonesian waters alone accounted for 119 out of 469 reported worldwide incidents in 2000, 91 out of 335 incidents in 2001, and 103 incidents of a total 370 reported incidents in 2002.[11] Over the same period, reported incidents in the Strait of Malacca and in Malaysian waters declined due to the increased effectiveness of the Royal Malaysian Maritime Police.[12] Although there are yearly fluctuations in total reported incidents and the total number of incidents has decreased in the last two years, the long-term trend has been an increase in such incidents. Of more concern is the increase in the violence of attacks including hijackings, hostage taking and the use of firearms.

These statistics raise several important issues,[13] including foremost, their reliability. The statistics of the IMB, and its information collection and dissemination, are a valuable resource for tracking and combating piracy, as demonstrated by its role in locating the hijacked *Alondra Rainbow*.[14] However, one problem with IMB statistics is that incidents may be underreported by commercial shippers.[15] One reason is that by reporting an incident, the ship may be idled for days, and at operational costs of about US$25,000 per day, this is a powerful incentive to not report a theft not approaching this cost. Furthermore, reported incidents may damage the owners' reputation as a commercial shipper.[16] On the other hand, the IMB's broad definition of piracy includes everything from petty theft in port to hijacking and this broad definition could inflate total incidences of piracy. Finally, the ratio of violent attacks to

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the total number of incidents is difficult to assess due to probable underreporting by commercial shippers. Only if violence occurs, and people seriously injured, are the cases likely to be reported. Thus the statistics could have a "violence" bias. Thus while the threat of piracy is indeed very real, accurate assessment of the phenomenon based on IMB statistics can be somewhat problematic. And a distorted picture of piracy could affect the choice of the most suitable methods of responding to this threat.

Another challenge to analyzing appropriate responses to piracy is the diverse nature of the crime. Piracy encompasses a wide spectrum of criminal behaviour ranging from in-port pilferage, to hit and run attacks, to temporary seizure of the ship, to long-term seizure, and to permanent theft of the ship. This spectrum corresponds to an escalating scale of risk and return. As the risk and potential return increase, so does the threat and degree of violence. Indeed, the more there is at stake, the more the attackers are willing to use violence. Additionally, as the risk, return, and the potential for violence increases, so does the apparent degree of organization of the attackers.

By far the most common type of piracy is hit and run thefts where criminals sneak aboard ships, generally at night, and steal what they can immediately lay their hands on, like cash and electronic equipment, with an average take of US$5,000 to US$15,000 in value.[17] These crimes tend to be opportunistic (that is, not executed with a great deal of forethought) and generally accompanied by little or no violence, involving sneak thieves armed with knives, often boarding ships in port. Crew members are often not aware of their presence until they are gone. This is a low investment crime, and has a lower return, which translates into less violence. This of course does not mean that there is not an apparent willingness to use force. In one incident, assailants boarded a ship at dock and were surprised by the ships' crew who used anti-personnel aerosols. But in the scuffle, one of the attackers threw a metal object, which hit a crewmember, causing a severe head wound.[18] Nevertheless, as long as resistance is not encountered, these incidents are predominantly non-violent.

Temporary or short-term seizures of ships represent the next step up in the spectrum of risk, potential return, potential for violence, and level of organization of attacks. Seizing the ship, especially if it is moving, requires boats, grappling hooks, and enough people with the means to control the crew. This necessitates some degree of coordination and organization. Some capital investment is required for boats and arms, training (or finding experienced people for boarding), coordinating a large group, and possibly for obtaining inside information regarding

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what a particular vessel is carrying. One example is the *Valiant Carrier* incident.[19] The ship was carrying fuel oil (a valuable and easily resaleable commodity), and was attacked four hours out of Singapore in the Malacca Strait. Using Molotov cocktails to distract the crew (on a fuel oil ship!), twelve attackers boarded and rounded up the crew, taking the captain and his family to open the safe. A deck officer was severely stabbed, the master electrician was wounded and the captain's seven-month old daughter was injured as well. The bridge was unmanned during the attack, greatly enhancing the possibility of collision or running aground. The attackers jumped overboard and were picked up by waiting boats. These short-term seizures clearly present danger to sealanes, ports and the environment, and they raise the concern that such acts could easily be accomplished by terrorists. For these two types of piracy, the threat of violence is obviously real, but should not be overstated.

Long-term seizure of boats is similar to short-term seizure except for the duration and purpose of control. There is also an increase in risk, potential return, violence and level of organization. The goal is no longer to simply steal whatever can be taken in 30 minutes or so, but rather the whole cargo. Although the duration of control is significantly longer, the main goal is still the theft of goods on board the ship. This necessitates having a location to dock and unload cargo, or another ship to which to transfer it, a buyer of the cargo, and a plan to deal with hostages (crewmembers), provided they were not murdered in the initial takeover. The case of the *M.V. Marta* is an example of this type of piracy.[20] In 1990, the *Marta* set out from Bangkok for Busan (Republic of Korea) with a cargo of over US$2 million worth of tin plate. Four heavily armed assailants, with obvious prior knowledge of the shipment, boarded the ship and overpowered the crew. They sailed the ship southwards for two days. The cargo was then offloaded by barges and crews with fork-lifts. After sailing on for a couple of more days, the captain was drugged and taken hostage by the pirates as they escaped. But the rest of the crew and the ship were released. Apparently the perpetrators were quite experienced as they bragged: "...that this was the sixth such successful attack they had made in the last eighteen months."[21]

The most serious form of piracy is the fourth type—hijacking. Those seizing the boat for its cargo intend to eventually abandon the boat. But hijackers are intent on permanent seizure and thus something must be done with the crew. The tactics of hijackers are almost identical to those perpetrating short and long-term seizures. They involve armed assailants boarding the vessel while enroute, controlling the crew, and

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taking over the ship. However, in permanent seizures, the pirates need a location where the boat can be disposed of, or in some cases repainted, re-flagged and returned to service.

The *Alondra Rainbow* incident was a classic case of hijacking. The *Alondra Rainbow* was carrying a cargo of aluminium ingots from Indonesia to Japan when it was intercepted and boarded by four heavily armed pirates. The crew was held hostage and their lives were threatened for a week. They were then set adrift and later picked up by a Thai fishing vessel. The IMB coordinated dissemination of information on the incident and the description of the ship was spread throughout the maritime world. A Kuwaiti freighter spotted a similar vessel in Indian waters, renamed the *Mega Rama* and flying a Belize flag. Quick checks by the IMB Piracy Reporting Center revealed that there was no such ship registered in Belize.[22] The Indian Coast Guard promptly detained the vessel and arrested those aboard. The pirates eventually confessed, revealing a complex ring involving two ship name and flag changes, plus the unloading of 3,000 metric tons of aluminium and people willing to buy and resell it. Because the potential return of the attack is so high, the organization necessary so extensive, and the ultimate disposal of the crew necessary, hijacking is at the high end of the spectrum of the risk, potential return, violence, and level of organization. And it obviously raises concerns that terrorists could undertake similar actions for political purposes.

Piracy is an economic crime done for financial gain, and therefore the principal causes can be sought in prevailing economic conditions. The Asian economic crisis deeply impacted Southeast Asian countries, creating an incentive for those at the lower end of the economic scale to turn to illegal sources of income. This economic collapse also triggered widespread political instability, most notably in Indonesia, creating an environment where people could more easily pursue their illegal methods of income generation. Indeed, economic collapse, combined with endemic governmental corruption and loose political control, creates an environment in which piracy may be ignored or even tacitly enabled by corrupt military elements who may share in the "booty".[23] Another factor encouraging piracy in Southeast Asia is the relative security provided by the permeable, poorly controlled and in some areas uncertain international maritime boundaries which allow pirates to easily cross borders and escape pursuit.

Terrorism

Terrorism is distinct from piracy in a very straightforward manner. Piracy is a crime motivated by greed and thus predicated on immediate

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financial gain. Terrorism, and its maritime manifestation, political piracy or maritime terrorism, is motivated by political goals beyond the immediate act of attacking or hijacking a maritime target. There is some overlap however between acts of piracy and actions of secessionist groups in the maritime arena such as the ransom kidnappings purportedly by members of Abu Sayyaf in the Southern Philippines and those by alleged members of the Free Aceh Movement. In the latter case, pirates attacked and held for ransom crew members in waters off Aceh.[24]

Worldwide, there have been two key events that have put maritime terrorism on the political map. These include the hijacking of the *Achille Lauro* cruise ship in the Mediterranean Sea in October 1985, and most recently, the attack on the French supertanker *Limburg* in Yemeni waters on October 2002. In addition to these incidents, the level of concern regarding maritime terror has heightened since September 11 by the widely disseminated, and largely accepted, fact that al Qaeda possesses some 15 cargo vessels.[25]

The *Achille Lauro* was by no means the first maritime terrorist incident, but it received international publicity, particularly since an American was killed during the attack. The *Achille Lauro* incident raised several important issues and concerns, including the almost complete lack of security and preventative measures which made it easy for a handful of Palestinian Liberation Organization (PLO) operatives to seize the vessel. Apparently, the PLO operatives had planned to carry out an attack on the Israeli port of Ashdod but a waiter happened upon them cleaning their weapons, thus forcing the situation. At this point the PLO operatives seized control of the *Achille Lauro* and "toured" the eastern Mediterranean. Eventually the Egyptian authorities negotiated the release of the vessel in exchange for returning the PLO operatives to Palestine. However, because an American had been killed in the ordeal, then U.S. President Reagan ordered two F-14 Tomcats to overtake the Egyptian plane returning the PLO operatives, and to escort it to Sicily where the Palestinians were arrested by Italian security.[26] The lack of security and the ease with which the cruise ship and its passengers were seized shocked the U.S. government and raised concern regarding other potential soft targets, including other maritime targets.[27]

The attack on the French supertanker *Limburg* serves as a recent, and poignant, reminder of the potential of maritime terrorism. Apparently, a small boat, presumably packed with explosives, came alongside the *Limburg* off the coast of Yemen and soon after a large explosion rocked the ship. The ship caught fire and began leaking oil.[28] This attack came just a week before the anniversary of the similar attack on the *USS Cole*, also in Yemeni waters. These attacks further solidified U.S. security concerns regarding maritime terrorism.

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Overlaps

Piracy and terrorism overlap in several ways, particularly in the tactics of ship seizures and hijackings. And some of the conditions which allow it to thrive are also similar to the causes of terrorism, for example, poverty, political instability, permeable international boundaries, and ineffective enforcement. However, the political objectives of terrorists distinctly separate their motives from those of pirates. Indeed terrorists want to call attention to their cause and to inflict as much harm and damage as possible. Pirates want to avoid attention and will inflict only as much harm and damage as is necessary to accomplish their mission.

Although the circumstances that allow piracy and terrorism to develop are similar, the root causes are different. For pirates, the motivating factor is economics; for terrorists it is generally political and religious ideology stemming from perceived injustices, both historical and contemporary. Thus while the tactics of combating maritime terrorism and piracy may be similar, long-term solutions may require different approaches.

Countermeasures and Their Effectiveness

The *Achille Lauro* incident indirectly led to the United Nation's International Maritime Organization's (IMO) sponsorship of the 1988 Rome conference from which emerged support for a Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation Convention (SUA).[29] SUA was meant to: "...fill many of the jurisdictional gaps highlighted when the acts endanger the safety of international navigation and occur on board national or foreign flag ships while underway in the territorial sea, international straits or international waters. The Convention requires States Parties to criminalize such acts under national law and to cooperate in the investigation and prosecution of their perpetrators".[30] Although the Convention was developed in large part in response to the 1985 *Achille Lauro* incident and with the objective of combating terrorism,[31] it is also now being promoted as an anti-piracy measure.[32]

United States Initiatives

Since September 11, 2001 (9/11) the United States has viewed extremists in Indonesia, Malaysia, the Philippines and Thailand as potential threats to world commerce flowing through Southeast Asian seaways. The nightmare for the United States is that a supertanker will be hijacked and driven into Singapore port, or some other large port, or sunk in the

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Malacca Strait, possibly by use of weapons from afar, thus seriously disrupting or detouring the flow of oil to East Asia, and potentially blocking U.S. naval mobility and flexibility as well. And the United States has little confidence in the capacity and will of Southeast Asian countries to prevent such a disaster.

Thus the United States and other maritime powers are pressing other countries to ratify the 1988 SUA Convention. But so far, only other maritime powers like Canada, major European countries, Australia, China, and Japan have ratified it. Some Southeast Asian nations fear that the obligations under the SUA Convention could compromise their national sovereignty and that the Convention could eventually be expanded to even allow maritime forces of other nations to pursue terrorists, pirates, and maritime criminals in general into their waters. Thus, no Southeast Asian state has ratified it.

Indeed, some Southeast Asian states feel the Rome Convention only makes sense for those countries with already established maritime dominance, or unchallenged maritime boundaries. For countries with a recent colonial history and relatively newly won independence, as well as disputed or porous maritime boundaries, the Rome Convention could be a serious compromise to both their national pride and domestic support for their governments. However, if "piracy" and "terrorism" are fused into a general threat to maritime security, developing countries may find outside "help" easier to accept and to "sell' to their domestic polity. So it may be in the United States' interest to conflate piracy and terrorism to persuade reluctant developing countries to assist maritime powers pursue pirates and terrorists in their territorial and archipelagic waters.

However, for practical reasons, the SUA Convention may not be the appropriate instrument to combat piracy. The enumeration of offences under its Article Three, even if interpreted broadly, will clearly cover only the serious but admittedly less common incidents of vessel hijackings and not the most common forms of piracy and armed robbery at sea, specifically in the Southeast Asian region.[33] Thus more than 95 per cent of the piracy and sea robbery incidents reported thus far would not be covered by its application. There is indeed a need for standardized international law that will facilitate the prevention and prosecution of piracy, but the Rome Convention may not be it.

Meanwhile, the United States has undertaken, in co-operation with India, a proactive attempt to control both piracy and terrorism in the Strait of Malacca. This effort uses U.S. and Indian warships to escort commercial vessels of "high value" transiting the Strait. However, naval patrols by major powers may not be the most effective or politically acceptable way to combat either piracy or terrorism.

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First, these patrols have created suspicion in Southeast Asia regarding the real goals of the Indian and U.S. naval presence in the Strait of Malacca. In the wake of the Cold War and September 11, the United States and India have developed a new political and military relationship. Indeed, it appears that the Bush administration desires a full-fledged alliance which would make India the United States' foremost military ally in Asia. Apparently India agreed to the joint patrols in return for the resumption of arms sales to India, specifically the "Fire Finder" radar system.[34] This suggests that the Indian and U.S. naval presence in the Strait is not just to combat piracy and terrorism, but is part of a broader attempt to assert a U.S.-friendly Indian naval presence in the region. Thus for the United States, the joint patrolling is the beginning of a larger military engagement with India.[35] And for India, the joint patrolling of the Malacca Strait is evidence and endorsement of its claim that its interests stretch up to and include the Strait.

Although this may be seen by some as a reasonable attempt to create a security order in the region, others such as Indonesia and China could well view this development as a threat to their regional authority and influence. Additionally, when the 1988 Rome Convention is considered in this context, it could be interpreted as a device to allow the dominant naval powers to undermine the authority of regional powers. When one considers the current U.S. military and political actions in the Muslim world, such actions by the United States and historically dominant India may not be universally viewed as positive or constructive by Muslim Southeast Asia. Indeed, the potential ability of these patrols to curb piracy and terrorism may not balance their potential to undermine security relations in the region.

There are also practical issues regarding the effectiveness of U.S. and Indian naval anti-piracy/terrorism patrols in the Strait. Of significant concern is the arrest authority of foreign naval vessels in waters under another country's jurisdiction. Commercial ships may exercise their rights to transit through international straits, and accordingly naval vessels may escort those ships under this regime. But their authority is generally limited to their own flag vessels. "Enforcement is largely left to the navy, which possesses the hardware of enforcement but lacks the power of arrest. This role is also at odds with international practice in which navies typically operate on the high seas leaving patrolling of territorial waters to coast guard-type bodies".[36] Perhaps the purpose of the U.S./Indian naval escorts is simply to deter would-be pirates and terrorists by the sheer intimidation of their presence, regardless of their legal authority, or to act as the eyes and ears of local maritime security forces.

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There is also a question regarding the appropriate size of the pursuit craft. In the shallow waters where most pirates operate, high-speed patrol craft are of more practical value.[37] Pirates tend to be highly mobile groups that operate based on intimate local knowledge of the waters and can easily lose larger pursuers in the maze of islands in Southeast Asia.

Indigenous Efforts and Self-Help

Indigenous Southeast Asian enforcement capacity is generally insufficient, although Malaysia has increased its enforcement effectiveness in recent years. Air surveillance and pursuit would be an important adjunct, but most Southeast Asian nations, and particularly Indonesia, cannot afford the number of aircraft necessary to adequately patrol their vast coastal region. International assistance in developing the indigenous patrol capacity of Southeast Asian maritime nations is a long-term solution to promoting regional security and would minimize the sensitive presence of foreign naval vessels.

Agreements made in 1992 between Indonesia, Malaysia and Singapore provided for joint anti-piracy patrols and information sharing. The 1992 Indonesia/Malaysia agreement established a Maritime Operation Planning Team to carry out joint anti-piracy patrols of the Malacca Strait. And a 1994 memorandum of understanding between Malaysia and the Philippines was aimed at coordinating anti-piracy patrols and sharing intelligence gathered from those patrols.[38] But these agreements were insufficient deterrents because they stopped short of actually allowing hot pursuit of pirates into a neighbour's territorial waters. The Malaysian Maritime Enforcement Coordination Centre stated: "Under no circumstances would we intrude into each other's territory. If we chase a ship and it runs into the other side, we let the authorities there handle it".[39] At present, there is only a "hands off" protocol in hot pursuit situations between Indonesia and Malaysia. Thus, while these co-operative efforts are to be commended, and are credited with constraining the growth of piracy during much of the 1990s,[40] they also highlight the continuing difficulties of pursuing criminals across international maritime borders. Such hot pursuit of pirates across borders is necessary to fully address the problem.

Multilateral initiatives to address these issues have thus far been almost absent, or like the SUA Convention, raised more concerns than they addressed. However, the recent announced joint information sharing initiatives concerning terrorism between Malaysia, Australia, Great Britain, Singapore, and New Zealand may prove effective to combating both terrorism and piracy.[41] And commercial vessels can protect

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themselves by employing Ship Loc locational devices, electric fences, high pressure hoses, security lights, and pirate watches,[42] although these devices may be too expensive for small coastal trading vessels.

Conclusions

The conditions which allow piracy and terrorism to thrive are similar but their objectives are different. The motivation for piracy is economic while that for terrorism is predominantly political and religious ideology.[43] The methods of execution, particularly ship hijacking (although a small minority of piracy incidents), and the political circumstances under which both piracy and terrorism tend to thrive, as well as the political interests of the United States, have led to the conflation of these two phenomena. Ship hijacking by terrorists is a serious potential threat, but there has yet to be such a case in Southeast Asia. Because of the overlap in operational similarities, short-term countermeasures such as enhanced patrols, co-ordination and ship defence will be useful for countering both piracy and terrorism. But long-term solutions aimed at eliminating the root causes of piracy and terrorism may have to be fitted to the particular problem.

Although the indigenous capacity in Southeast Asia is insufficient to combat the problem, naval patrols by outside maritime powers are perceived as a challenge to national sovereignty. This, and onerous obligations, could also account for the reluctance of Southeast Asian nations to ratify the 1988 Rome Convention. Naval patrols by India and the United States in the Malacca Strait may be perceived in Southeast Asia as part of a much broader regional security plan whose scope goes well beyond combating piracy and terrorist threats in the Strait of Malacca. Furthermore, their practical effectiveness is questionable. The arrest authority of foreign naval vessels exercising rights of transit through international straits is unclear. Beyond this legal jurisdictional issue, the sheer size of these vessels may inhibit their effectiveness in pursuing pirates and would-be terrorists using small high-speed craft who have intimate knowledge of the surrounding waters. Moreover, traditionally, it is not the role of the military to function as police.

To attack the problem of piracy at its root, there should be more concerted efforts at assisting both state and capacity building in Southeast Asia. Piracy is largely driven by poor economic conditions, and by addressing that issue a major cause of piracy can also be addressed. However, the organized crime syndicates responsible for major ship hijackings such as the *Alondra Rainbow* may not be curtailed by economic development because the potential returns of hijacking are so high. Nevertheless, by promoting state building efforts, and assisting

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the development of coast guards and internal security apparatuses, these crime syndicates may be dealt with more effectively. Addressing the threat of terrorism *qua* terrorism is more problematic, and involves more complicated and sensitive questions of religion, ideology, sovereignty and foreign policy. Perhaps standard anti-terrorist approaches such as disrupting the finances and leadership of the sponsoring organization may be effective in the short term. But by helping these states develop their own surveillance and enforcement capacities, long term, and longer lasting, solutions will be possible. Ultimately, some nations may have to provide greater cultural and religious "space" for these dissident groups. Thus to combat the threat of piracy and maritime terrorism, both indigenous countries and external maritime powers should focus on what has created the threat, rather than its symptoms.

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43. There are no hard and fast lines separating economics and political motivations, for one can often support the other, but the vast majority of pirates are not politically motivated.

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Asia-Pacific Perceptions of the Financial Crisis: Lessons and Affirmations

ANTHONY MILNER

This article is a report on a workshop in which historians joined with economists to probe the experience of a traumatic development in the process of economic integration—the Asian Financial Crisis of 1997–98—in a selection of Asia-Pacific countries. It is a preliminary investigation, specifically focused on perceptions rather than material consequences, and relying strongly on the participants' familiarity with the dominant narratives operating in each of the countries concerned. The investigation notes the resilience of those dominant narratives: It suggests, however, that although the impact of the Financial Crisis on the economies and peoples of the region was dramatic, the impact on public perceptions in the economics sphere was less significant. It is in the social and political spheres that we find the strongest reactions. That is, while the Crisis did not bring about a demand for radical change in economic policy in most Asian countries—in particular a demand for a reversal of liberalizing policies—the experience of 1997–98 certainly reinforced a number of national narratives (and national anxieties) which work to promote plurality not integration in the Asia-Pacific.

Introduction

The fact that the world over recent decades has seen a reduction in transaction costs and an increase in flows of goods, services, people and capital, is well established.[1] There is much less agreement, however,

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about the extent to which deeper economic integration, including increased gains from trade and investment, has brought change to institutional and value systems. At the present time this issue seems especially significant, as a region that had only a few years ago been celebrating its economic and social triumphs now confronts a widespread terrorist movement that invokes aspirations formulated some fourteen centuries ago.

Perceptions of the Crisis—grounded in deep-running national aspirations and anxieties—differed from one country to another. A particular contrast, however, exists between United States and Australian experience of the Crisis, on the one hand, and most Asian interpretations on the other. Two longer-term developments seem to have been influenced by perceptions of the Crisis: the first concerns the future prospects of Asian *vis-à-vis* Asia-Pacific regionalism; and the second is the issue of whether "globalization" is likely to be potent as a concept extending beyond economic change and envisaging the evolution of a "world society".

The Crisis

The Financial Crisis marked the end of an extraordinary decade of internationally-oriented economic growth throughout developing East Asia. Most developing economies in the region doubled output in the decade to 1996. Growth was steady, and there was growing confidence that it would be sustained over a long period. Sustained growth supported trade and investment liberalization in all East Asian economies. The liberalization proceeded most rapidly in some of the economies that had been most closed to international trade, including China, Indonesia and the Philippines. In each East Asian state trade liberalization and economic growth supported rapid expansion of imports, further improving the environment for the expansion of exports and output through East Asia.

These beneficent processes came to a halt in one after another East Asian economy through the Financial Crisis. The shock came first to Thailand, in July 1997, and over the next six months had a major impact throughout peninsular and island Southeast Asia. Through the first half of 1998 it generated deep recession in Korea and Hong Kong.

The collapse of output in Thailand, Malaysia and Korea, and most of all Indonesia, was not only large in comparison with the prosperity of the previous decade. It was large by the standards of economic crises in other regions and other times. The reduction in

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output in Indonesia was greater than in Western Europe during the Great Depression of the 1930s.

An economic catastrophe of this dimension inevitably has substantial effects on how political communities view economic reality, and through changes in such perceptions, on ideas about economic policy. The deep economic depression centred in Victoria in Australia in the 1890s, for instance, played a major role in shaping the economic policies of the Australian Federation in the early decades of the twentieth century. The approaches to trade protection and intervention in the labour market that were established in the wake of the 1890s Depression cast a shadow right through the twentieth century. The Great Depression of the 1930s in the United States marked the beginning of a "liberal" supremacy surviving into the 1980s and to some extent today, in which government expenditure on social welfare and intervention in market processes became much more prominent. In Western Europe, the stresses of the 1930s Depression laid the ideological groundwork for the welfare state in the United Kingdom and for Nazism in Germany.

At the time of the Asian Crisis, Ross Garnaut commented that the largest long-term economic effects of the Crisis would be through its effects on ideas about policy.[2] As it turned out, perceptions of economic processes have changed in some important ways, including some which have led to greater skepticism about deep integration into international capital markets. But there have been cross-currents, and the overall effect on economic policy has mostly not been in the direction of retreat from the international economy. Rather more important was the retreat of international capital from Southeast Asia and parts of Northeast Asia (but not from China).

While the Crisis could not be said to have led to a reversal in the progress of economic internationalization, some of the ways in which the Crisis was perceived in the region may nevertheless have long-term significance. Analyzing such perceptions can throw light on the character of globalization in Asia and raise other questions about the likely direction of future state policies.

Looking back at the decade of sustained, rapid economic growth in developing East Asia, there were two large and interconnected contested ideas about the origins of the region's prosperity, and about the political and social implications of global economic integration. In the contest about the origins of East Asian economic success, one view—notably amongst economists at the Australian National University—was that a number of conditions had to be met if rapid growth in the East Asian style was to be sustained. These conditions included relatively open trade and relatively undistorted domestic markets. The alternative view was that East Asia succeeded because governments intervened to distort

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prices and market outcomes.[3] Both views had followers within the Washington-based international institutions.[4] It was an important debate beyond East Asia, with the "revisionist" view led by political scientists being used to argue a case against the use of competitive markets and open trade in developed economies in the West.

The second contested idea related to the links between economic change and transitions in political institutions and value systems. This debate cut across disciplinary lines with economists and political scientists each being split over it. There was an influential view (including in Australia) that successful internationally-oriented growth would homogenize political institutions and values,[5] with liberal democracy emerging as the global model. This view supported a holistic understanding of globalization, entailing the concept of an emerging world society.[6] Some commentators even argued for accelerating this process of convergence by applying political conditions to participation in the international trading system.

The alternative view was that deep economic integration through market exchange, and the associated increase in incomes, would introduce pressures for more popular participation in policy-making, but that institutions and values would continue to vary greatly. The goddess of democracy in Tiananmen Square was not the Statue of Liberty.[7] The view that market exchange facilitated the development of different political institutions, the survival of differences in values, within the general democratizing pressures of internationally-oriented growth, was presented most elaborately by economists at the Australian National University.[8] At this university and elsewhere, cultural analysts also resisted the homogenization viewpoint, and identified ways in which different Asian societies developed a range of different ideological as well as institutional responses to global influences.[9]

The "Asian values" discussion in East Asia and the West has a place in these two large contests of ideas. Within East Asia there was political and some intellectual support for the idea that unique "Asian values" had contributed to economic success.[10] In economic terms, "Asian values" meant intimate connections between business and government, underpinning government intervention in support of particular industries and business. Such a relationship between government and business was seen to be, and was, distinctly different from open, market-based exchange. At the same time, the "Asian values" perspective asserted the importance of maintaining distinctive political institutions and values. People operating within this perspective were prepared to compromise any benefits from integration into the international economy if there was conflict with the maintenance of local institutions and values.

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As the Asian Crisis deepened, these local perspectives—developed in a period of boom—continued to be asserted. Some were concerned specifically with economic policy. Interpretations of the Crisis which placed blame on what was said to be an uncritical acceptance of free-market economism and financial liberalization gained currency. Accusations were made to the effect that the Crisis was the result of deliberate Western strategy, bringing into question the presence of a genuinely supranational global imperative that might drive change in the region.[11]

The fact remains, however, that despite these strongly expressed sentiments, the governments of the countries most affected by the Crisis—Thailand, Korea, Malaysia and Indonesia—remained committed to economic globalization. Even in Malaysia, there was genuine acceptance of the need for financial restructuring. This vociferous critic of the West went so far as to implement a reform agenda that was comparable with the IMF agenda pressed upon seemingly more pliant Asian states.[12]

Perceptions and Narratives

The area in which local perspectives were insisted upon most strongly after the onset of the Financial Crisis was not primarily economic in character. Although considerable support was maintained for economic liberalization across the region, public discussion at this time is most revealing in the way it exposes the ongoing commitment to pluralism rather than homogenization in the area of political norms. Looking across the region, to Australia and the United States as well as to Asian countries, we find a broad range of perceptions of the Asian Crisis—often embedded in specific and influential local narratives. In some cases, strongly contrasting perceptions competed for attention within a single country; in many cases in the region there were clashes with the types of understandings of the Crisis that were widely held in the United States and Australia.

To identify perceptions of the Crisis that are influential in East Asian countries and Australia, the Academy of the Social Sciences in Australia held a small workshop that brought together economics and cultural expertise on the region. The latter included expertise on Thailand, Korea, Malaysia, Japan and Australia, each specialist delivering a briefing paper that analyzed the way the Crisis was understood in his/her country of specialization. The present overview essay draws upon these deliberately impressionistic presentations—presentations that employed the participants' long-term knowledge of

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the societies concerned in order to show how perceptions of the Crisis were shaped by long-running local histories. Although the narratives operating in particular Asian societies often seem to have little direct connection to economic issues (and do not in most cases carry specific policy implications), these narratives are still key components in the ideological climate within which public attitudes and government policy are developed.

In the West—for instance, in the United States and Australia—the Asian Crisis gave greater potency to already powerful narratives that relate to the holistic view of globalization. Prominent Western commentators argued that those who had lauded "Asian values" and the specifically "Asian" mode of economic development were now utterly discredited. The Crisis, said one of them, had "puncture(d) the idea of Asian exceptionalism".[13] To the extent that Asian societies had tried to do things differently, Anglo-American investors thought they had failed. To the extent that they intended to do things differently in future, they would continue to fail, and would therefore not be productive economic partners for partners in the West. The economic upheaval in Asia, it was argued, was due to the "corruption and incompetence of Asian governments" and certainly not to weaknesses in the architecture of global finance.[14] Some commentators went further. The Crisis, it was proposed, provided the opportunity for the United States to "spread its world view" and establish a hegemon.[15] As if to confirm the darkest suspicions held in Asian societies, such statements seemed to lock the much-heralded globalization of economies into an American national narrative.

The reality was more complex. The Crisis did reveal unambiguously the advantages of open approaches to international trade and direct investment (although not of portfolio flows of capital). This was a conclusion shared by policy élites across East Asia. What was not accepted in the Asian region was the proposition that there is incompatibility between deep integration into the international economy and the survival of a considerable range of political institutions.

In Australia, as we shall see, the confident US perspective on the Crisis did not seem to present a serious problem. But the narratives that are influential in many Asian societies intersect with the United States' one in less sympathetic ways. The manner in which some American commentators asserted a nationalist and imperial vision during the Crisis only served to confirm for many in Asian societies the judgment that globalization, when viewed as a social and political as well as an economic phenomenon, would be better described as "Americanization" and could not be considered a universal process. Such a rejection of

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universalism, as this paper seeks to explain, gathers support when we examine the contrasts in the ways in which different Asian commentators perceived the Crisis.

In each country in the Asian region, not surprisingly, the Crisis was understood differently according to factors operating in each local context. Experience during earlier periods was liable to shape the way the 1997–98 Crisis was understood, just as the Crisis itself had the capacity to influence thinking about future developments, including what forms globalization might eventually take in the Asian region.

Korea

In Korea[16] the Crisis was perceived within a dialectic of two deeply held nation–state narratives. One position, that Korea is a "shrimp between whales", that is, a small country tossed around by larger powers' interests, evokes a counter-position that asserts Korea's international worth. Thus, South Korea projects itself both as a victim of a United States-led global economic system and as a nation that will solve economic problems, and will show the rest of the world the way.

It is consistent with the "shrimp" vision that in the 1960s–1980s period, when the Korean economy was being radically modernized, there was a constant insistence that development must occur in a manner that did not make Korea hostage to outside powers. The Financial Crisis of 1997–98 was labelled "the second national shame", which is very strong wording, meaning a humiliation of the nation by an outside force (the first national shame was the annexation of Korea by Japan in 1910). Thus the Crisis was seen as having been imposed from without, and accordingly the Korean reaction involved adoption of strategies employed in the past: donation of gold and gemstone jewellery by citizens to the government to mitigate the currency crisis, and a "buy Korean, boycott foreign goods" campaign. Korean children in 1998 were removing tags from their schoolbags so as not to appear to be buying US products. These strategies followed the patterns established in the 1907 National Debt Repayment Movement, the 1919 Boycott Japanese Goods Movement and the Korean Products Promotion Campaign from 1923 through to the mid 1930s. The 1997–98 Crisis thus reinforced suspicions about globalization, including the view that globalization is best understood as a United States-driven process.

On the other hand, there is an idea propagated by some Korean public intellectuals that Korea's relation to the rest of the world is such that it will show the rest of the world the way. Not that Korea is a microcosm of the wider world, the world system writ small, but rather that it is an intense, most concentrated form of the wider world, in

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which every feature is brought out in sharper relief than anywhere else, and that, as a result, Korea will show the solution to the rest of the world. This is pretty standard nationalist rhetoric. The idea that Korea somehow stands at the forefront has become a shibboleth in both North and South. In the North, there is the claim to be the vanguard of world socialism, the most advanced expression of the socialist formula. The South is asserted to be the forger of the synthesis that the world must follow. Thus, although naming the Financial Crisis "the IMF Era" implied that the Crisis was imposed on Koreans by the outside world, the slogan "Bring back the Miracle of the Han Era" already portrayed Korea as the nation that would out-do the rest of the world and shine as a great example.

This does not mean that Korean scholars, particularly economists, denied that economic preconditions made Korea especially vulnerable to outside or global economic downturns. Some argued that the falling value of Korean stocks and shares—following the collapse of certain major Korean corporations, including Hanbo—was crucial in discouraging foreign investors. This, together with problems in the whole region, was seen by these economists as a sufficient cause of the Financial Crisis in Korea. Some added that the Republic of Korea (ROK) government's maintenance of the interventionist tradition in facing the Korean Crisis was not helpful. It simply shored up the vested interests and structures of big business, bankers, and government funding sources. Public intellectuals on the left have claimed that although corruption and big business/government collusion is a problem, this is a direct effect of a world system; that is, an international division of labour system, in which economic centres drain capital out of economic peripheries. In this connection, anxiety among the populace remained intense over the possibility that Daewoo and other conglomerates would be taken over by foreign businesses such as Ford Motors or General Motors, and this encouraged popular anti-Americanism.

The Crisis has also given Korea's "democracy" narrative another dimension. Prior to the Crisis there had been a lot of anti-*chaebol* (business conglomerate) feeling. Although the Crisis was not seen as a "chaebol Crisis" so much as an "IMF Crisis", it was felt that the repayment of IMF loans amongst other consequences of the Crisis fell disproportionately onto the shoulders of ordinary people. Close government–business connections, allowing some to accumulate wealth without accountability, were questioned as the government was increasingly expected to institute reforms to move the economy in a more "democratic" direction. Both business and government, it was said, ought to be more accountable to the people. This found expression in a 1999 statement by the former President of ROK, Kim Dae Jung:

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> "The current Korean Crisis stems from a failure to achieve the balanced development of democracy and a market economy over the past thirty years of modernization. Had these institutions been allowed to develop naturally in Korea, many of the current shortcomings, such as collusive ties between government and business, the government-controlled financial system, corruption and moral hazard, all causing tremendous losses to the national economy, could have been prevented. Thus, the realisation of democracy and a market economy is crucial to the nation's effort to thoroughly overcome the current Crisis".

The point to stress here is that although there was certainly hostility to the IMF in Korea, the fact remains that there was considerable local sympathy for the IMF reform agenda. As Heather Smith has explained, "Most of the key reforms contained in the IMF agreement have been on the economic agenda of the Korean government for years—notably, cleaning up the financial system, slimming the chaebol, and introducing greater transparency in corporate governance".[17] The prospects for greater internationalization of the Korean economy are therefore strong, despite the presence of significant anti-Western political attitudes.

Thailand

In Thailand too the response to the Crisis is to be understood in terms of long-term preoccupations in the community, one of which was a concern with the sovereignty of the nation.[18] Although Thailand, unlike many countries in the region, was never formally colonized by a European power, it was certainly placed under threat during the European expansion in Asia in the nineteenth and early twentieth centuries. In the Thai national narrative, prominence is given to those historical developments which have threatened Thai sovereignty, such as the imposition by Great Britain of the Bowring Treaty in 1855—an agreement that opened up Thailand to trade with the west, deprived the Thai court of control of certain valuable products and gave extra-territorial rights to British subjects in Thailand. Another point at which Thai sovereignty was compromised was in 1893, when the French government sent two gunboats up the Menam River to Bangkok to force the Royal government to cede to France all territory on the left bank of the Mekong. Further events include the Japanese occupation of Thailand in the Pacific War and the presence of U.S. bases in the country in the 1970s, during the Indochina War.

In each of these cases, the Thais were able to cope with the threat, but in the words of a senior minister of the Thai government, they "sometimes had to sacrifice sovereignty for the greater good". The

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Asian Financial Crisis, and particularly the austere dictates of the IMF, could easily be interpreted in Thailand in terms of this "threat to sovereignty" narrative. But it should also be understood that even at the height of the country's economic boom, enthusiasm for economic and social change that some termed "globalization" was tempered by a desire to protect what was local and "Thai". The idea of a harmonious Thai community possessing familial and village values continued to have appeal. Furthermore, the communitarian viewpoint often included a stress on local knowledge—local customs, local culture, local language—in the face of development, globalization and Westernization.

The Crisis, as might be expected, strengthened the communitarian case against the globalizers. The former condemned the free-market doctrines of the United States, warned against all types of Western fashions and art forms that seem capable of undermining Thai values, and advocated the setting up of a Council on the Local Knowledge of Thailand, to help local organizations resist multinational enterprises.

Communitarianism is by no means a solely non-élitist, subaltern viewpoint. The King himself, who holds immense influence in Thailand, has long expressed views advocating self-reliance, village co-operation and low-tech solutions. In December 1997, after the Crisis began, he proposed that "if we can change back to a self-sufficient economy, not complete, even not as much as half, perhaps just a quarter, we can survive". He added that "we have to go back to things which are not complicated and which do not use elaborate, expensive equipment".

As Thailand has continued to emerge from the Crisis, communitarian concerns and local knowledge will have gone on being valued despite the imperatives of internationalizing forces. In the case of the current government, the Prime Minister, Thaksin Shinawatra, a wealthy businessman who made his fortune by monopolizing the sale of electronics to the military, could be described as a globalizer par excellence. But his views on economics need to be understood in a broader, local context. He has taken pains to present himself as a populist, communitarian figure as exemplified by the name of his Tai Rak Tai (Thai love Thai) Party. In seeking strategies in the post-Crisis period, there will be a continuing Thai determination not only to be up-to-date in international terms but also to maintain Thai identity, assert Thai self-reliance and protect Thai sovereignty. This determination has echoes in Thailand's southern neighbour, Malaysia.

Malaysia

In Malaysia[19] there has been a long-standing commitment to market economy principles—a fact that helps to explain the government's

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basic willingness to continue to internationalize the economy after the onset of the 1997–98 Crisis—but for decades this has been qualified by an insistence on government intervention, in particular to shift a greater proportion of the country's commercial and industrial activity into the hands of members of the Malay community. Particularly since the racial riots of 1969, the government has had the objective of correcting the imbalance between the Malays and other groups, especially the Chinese, with respect to economic performance and welfare. Malaysia, therefore, has been accustomed to government intervention and leadership in the economy as in other spheres.[20] As a result, in facing the Financial Crisis, many would have expected the government to intervene actively to protect what are perceived as Malaysian interests. For this reason, the Malaysian government's capital controls and the pegging of the ringgit to the U.S. dollar, were judged to be an appropriate level of government response to a situation generally seen as a national emergency and a threat to Malaysia's independence.[21]

It should be remembered that Malaysia had been colonized by the British, and there continues in the Malaysian psyche the perceived need for a struggle (*perjuangan*) against both foreign neo-colonial intentions and internal subversive elements. Indeed, the way the Malaysian government during the Crisis set up the National Economic Action Council (NEAC) mirrored Malaysian government's proactive responses to earlier crises such as the Communist Emergency (1948–60). The post-independence priority for national development was also pursued in terms of such struggle, with the Deputy Prime Minister, Tun Abdul Razak, instituting a military-style offensive with a central control room, "red books" to record grassroots needs, and surprise visits by the "commander-in-chief" to check up on progress and on the performance of his team of bureaucrats. In 1997, in the same spirit, the NEAC was set up with a control room daily monitoring the economic pulse and its team reporting directly, ultimately to the Prime Minister. Such a vigorous response and seemingly successful policy outcome gave the government the opportunity to shore up its legitimacy in a context in which it was facing not merely a dramatic economic challenge but also serious domestic political strains.

The political situation was indeed serious. Since the 1995 General Elections it had become increasingly evident that there were strains within the ruling party, the United Malays National Organisation (UMNO), between Dr Mahathir and his supporters and a faction around the Deputy Prime Minister, Anwar Ibrahim. As the Financial Crisis began to bite in Malaysia in late 1997 and early 1998, these differences were to become increasingly irreconcilable, especially when Anwar presented himself as an advocate of an IMF-style stringency approach

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to the nation's economic problems. Mahathir's early criticism of international currency speculators can be seen as an attempt to rally local political support around himself, and he then proceeded to adopt a policy of increased government infrastructural expenditure to stimulate the economy. This had to be implemented without causing further capital flight and in the context of a reluctance to seek IMF assistance, which might entail conditions threatening entrenched pro-Malay redistributive policies.

Regarding the ongoing appeal in the mass media to anti-Western and anti-IMF sentiment, it should be remembered that Mahathir had for many years been a leading proponent of an East/West narrative that tended to laud Asian values and Asian modes of development and, at the same time, portray European powers as seeking to damage Asian interests just as they had damaged them in the colonial past. By the 1990s, according to this narrative, Asia was becoming too successful economically and was thus a threat to Western interests; the Crisis, then, could be seen as a way of putting Asia in its place.

To what extent the views expressed by Mahathir and the mainstream media connected to the government actually reflected or influenced those more widely held in the general community is difficult to determine. Nonetheless, a deeply held fear of "other people" (Communists, Chinese, Westerners, immigrant "aliens")—a fear that this East/West narrative tapped into—has long existed, especially in the Malay community.

Perceiving the Crisis in terms of a foreign, particularly Western threat, the Malaysian leadership readily identified foreign antagonistic forces seeking to undermine Malaysian endeavour by manipulating the workings of the international market. "Rogue speculators" (George Soros), "currency sabotage", and "anarchists wanting to destroy weak countries in their crusade for open societies" by attacking an economy with basically sound economic fundamentals were repeatedly blamed. Malaysians saw some Westerners as gloating over the fall of the "Asian Tigers", and noted the inappropriate and ill-timed IMF interventions, with their attached conditionalities and the presence of the foreign investors greedily waiting to buy up Asian assets at bargain basement prices. Analysts also pointed to "a Washington that allows only one view". Currency trading was seen by some as morally reprehensible and unnecessary and was equated with gambling, profit-taking, insider trading and the beggar-thy-neighbour approach of the mega-rich. Appeal was made to the necessity for currency stability (standard weights and measures) within a more just Islamic economic framework. A basket of currencies—each valued according to economic indices—was suggested, as was a uniform (Tobin) tax on spot

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transactions. Finally, a case was made for international market transparency, accountability and regulation.

Much was said during this period of the "myth" of the level playing field and of the disinterested free market.[22] The Crisis underscored for Malaysian observers that human agency (perceptions, self-interest, direct intervention) was very much a factor in the international economy's operation. Distinction was made between the "real economy" of production and trade and the speculator or extractive investor seeking to profit from market volatility. Rather than confirm charges of government corruption, cronyism and nepotism, the Crisis instead seemed to affirm the government's "Malaysia Inc" policy of close collaboration between government and business for the benefit of all, and, in particular, to maintain social harmony. Strong government was seen, as it had been on numerous previous occasions, as proper and necessary for social as well as economic stability.

Japan

Malaysia's anti-United States/West sentiments, it must be said, found some support in Japan,[23] the largest economy of the region. There was a strong view in Japan that the United States and the IMF had failed Asian countries. There was a reluctance to acknowledge the genuine contribution of the United States to overcoming the Crisis—in particular by being a major purchaser of Asian exports as well as through support of the IMF. The United States was also accused of double standards—for instance, criticizing bailouts in Asian countries when the United States' Treasury itself was willing to set easier conditions on bailouts to Russia and Latin America. The U.S. administration was also accused of inconsistency between its support for the U.S.-based hedge fund, Long Term Capital Management (LTCM) and its unwillingness to accept views based on proof from East Asian governments that the macro hedge funds had destabilized their financial markets. A further reason given for condemnation of the United States arose from the perception that America used the Crisis as an opportunity to destabilize the Suharto regime.

Alongside this condemnation of the United States, there was in Japan a tendency to understate the way Japan itself had helped to worsen the Crisis. The weak Yen from 1996 was an important trigger to the Crisis. Investment funds were sucked from the region back into Japan in 1998, encouraged by a weakened Japanese banking system and an imploding Japanese economy. Liquidity dried up in Hong Kong, for instance, as Japanese banks left the system. Japan was unable to provide the macro-support or boost that Asian economies needed. It was the

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U.S. economy which in effect did this. Meanwhile, the much-acclaimed Miyazawa Plan (1998) of the Japanese government may have been more of a confidence-boosting measure (or mere window dressing) than an effective provider of real assistance, although Malaysia perhaps benefited most through soft loan packages.

Influenced in part by the failure of international financial institutions in the Crisis, a perceived lack of support from the United States, and a sense that Japan could only "make it" on the regional stage, the Japanese have been prominent among those urging financial co-operation within the Asian region. The Japanese Ministry of Finance, for example, has been pushing for parts of ASEAN to peg their currencies to a basket of major currencies which would include the Yen. There is the idea of a Yen bloc which would put Japan at the centre of Asia, between the U.S. bloc and the Euro. Support for such arrangements and even possibly an Asian currency, support for an ASEAN Plus Three regional process, and the promotion of an Asian network of leading intellectuals working collectively on the region's problems builds upon a long-established Japanese role in the promotion of a regional consciousness—most recently in Japanese contributions to regionalism in post-World War II Asia. Such rhetoric about regionalism gives Japan leverage in the region—a way of being a counterweight to U.S. hegemony as well as to growing Chinese economic and political power. "Asia" initiatives of this type also help to add to Japan's credentials as a leader amongst Asian nations, providing voice and influence in global fora such as the G8 and the United Nations Security Council.

Many feel that Japan needs the United States (in addition to ASEAN) as a counterweight to China, about which there is increasing anxiety in Japan. Nevertheless, Japan wants in addition to limit the excesses of the United States as a superpower and, in any case, there is an influential view that the United States had indeed made the Crisis worse than it needed to be—through IMF conditionalities on loans, wrong timing and financially irresponsible behaviour.

Indonesia

In Indonesia,[24] the worst affected of the Asian economies, the response was significantly different. The Indonesian regime faced a specific difficulty in attempting to provide an explanation of the Crisis that laid blame on the West or others outside the Indonesian polity. So much of Indonesia's economic (development) policy had been explicitly linked to the Suharto regime that its failure added much strength to the forces already questioning the legitimacy of that regime.

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In Indonesia, in contrast to Malaysia, it was relatively difficult to convince the public that the Crisis was due to the workings of the international market. The fact that the Malaysian government had long supported free enterprise, as demonstrated by its programme of privatizing public sector entities, meant that many members of the Malaysian public were well acquainted with market economics. They were thus open to the argument, much favoured by Mahathir, that the unbridled workings of the international financial market had been the cause of the Crisis in Malaysia and elsewhere. In Indonesia, on the other hand, the presentation of economic development was so explicitly personalized with reference to the Suharto regime that anti-market rhetoric had to be far less persuasive as a way for the government to explain the Crisis to the people.

One potentially convenient scapegoat in explaining the Crisis was the Chinese community. The Chinese were perceived by some as "outsiders" and disloyal to Indonesia. However, even in this case, the Suharto regime was implicated—at least in the sense of having been seen as in the past protecting the Chinese and benefiting from their wealth.

Thus, it is the centrality of the Suharto regime that is the key to understanding Indonesian perceptions of the Crisis. The earlier prosperity and economic development of the country had been understood not so much as being due to the functioning of the free market, but rather as the achievement of the President. His government was highly personalized and held itself as a "New Order" premised on implementing technocratic-ordered development for the good of all. The kudos of apparent development success was bolstered by the much-cited concept of the President as the head of the Indonesian "family", which is the State, and thus deserving of its citizens' filial loyalty. Just as the economic boom was perceived within the narrative of Indonesia's Suharto-led "development", explanations of the Crisis also had to be focused on the President.

Reinforcing this personalized understanding of government is the reality that Indonesian leaders continue today to be seen as having certain mystical or spiritual powers. Good times are interpreted as a sign that the gods are looking down with favour on a particular leader. However, tough times and calamities, such as the Financial Crisis and the "haze" crisis (in which large parts of Indonesia and Malaysia were afflicted by a health-damaging fire haze), can be portents that a leader has lost his mystical aura, perhaps due to some shortcoming in his character or actions.

It is true that a particular photograph of the IMF chief Camdessus with arms folded standing over President Suharto—the latter signing

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the document that spelt out specific reform commitments that had to be made by the Indonesia government in order to obtain IMF funding assistance—had a great impact. It suggested that Suharto was totally controlled by the U.S.-backed IMF. As Suharto himself seemed to appreciate, even Indonesians who detested him felt some sympathy and a sense of national humiliation. It was a reminder of the way Indonesian sultans had been portrayed alongside Dutch officials during the colonial period.

Although presenting an image of national humiliation, the message conveyed by the photograph focused on internal as against external causes, in particular, the decline of Suharto. If the boom had evoked the power of Suharto, the Crisis suggested his impotence. The Father of the State had failed, and, as a consequence, lost authority in the eyes of the people. The Crisis quickly escalated from a monetary to a total (including political) crisis. The military, who had played such an important domestic role in Suharto's New Order Indonesia, lost credibility. They were implicated in the burning and looting of property, the raping of Chinese women, and the kidnapping of students and pro-democracy activists. Students—the icons and triggers of resistance—mobilized, especially after the "martyrdom" of four students in May 1998. The consequences were thus disastrous for the Suharto regime and Suharto was forced to step down on 21 May 1998.

Locating blame for the Crisis primarily within the country itself, rather than in external market forces and players, had a further implication. Such an interpretation of the Crisis inevitably helped to counter a post-Crisis cynicism toward globalization. In fact, only a minor leftist party (the People's Democratic Party) espoused anti free-market views, and the government displayed considerable obedience toward IMF dictates. The resentment directed toward the IMF had been real, but because the economic disorder of 1997–98 was to be attributed to the President rather than market forces, globalization has not attracted the same odium in Indonesia as it encountered in Thailand and Malaysia. Despite the genuine seriousness of Indonesia's economic problems, therefore, it can be said that a broad consensus exists for continuing with policies to open up and internationalize the Indonesian economy.

Australia

Turning finally to Australia,[25] we find the Crisis once again had a profound impact, but one different from the consequences or perceptions in most Asian countries. As Prime Minister Howard insisted, Australia's capacity to survive the Crisis gave the people a boost in confidence. At one level, the new confidence involved the suggestion that Australia

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had more to offer the region, including economic advice, but it was also one of a number of factors that encouraged Australians to identify less rather than more with "Asia"—a significant reversal of the trends of the early 1990s. The Crisis, it can be argued, placed a question mark over the progress of globalization in the region—at least in helping to strengthen the view that the societies of the region continue to be shaped by historical and cultural forces that make them profoundly different from Australia.

In economic terms, "Asia" also became not so much a region of opportunity for Australia as a threat. Just as the domino theory of the 1960s and 1970s conveyed a fearful image of communist advance toward Australia, so Australians now seemed to be threatened by an Asian contagion; newspaper headlines—in the early 1990s so preoccupied with whether or not Australia would be accepted in the region—now spoke of "the downsides of being in Asia" and "fears of Asian Fall-out...".[26] The government, it is true, saw an opportunity to build up Australian credentials in the region by being generous to countries such as Korea, Thailand and Indonesia, that had so recently been experiencing growth rates well ahead of Australia's. But the fact that the Crisis led government and business to emphasize the pursuit of markets for Australian goods beyond Asia, was seen as a warning to Australians to think on a global rather than regional scale. Furthermore, the sense of achievement that was felt when Australia, contrary to public fears, seemed to be able to weather the Asian Crisis, had the effect of increasing the psychological distance between Australia and the region. Asian economies now seemed to have lost their shine, and, as a result, there was a reduction in imperatives for engaging with the region. In the post-Crisis period a more confident Australia regretted what appeared to some to have been a fawning approach to Asia in the past.

By the same token, much of the talk in Asian countries about "Asian values" being superior to "Western values", and the superiority of Asian modes of development—talk that had been prevalent before the Crisis—now seemed all the more hollow to Australians, as it did to many others in the West. The message that was driven home effectively in Australia was that those countries like Australia that had freed up their economies, achieving economic discipline and transparency, were best able to handle the Crisis. Liberal democracy and free marketeerism were seen to have triumphed over Asia's soft authoritarianism.

In what sense, however, was this seen in Australia as a victory for globalization? As a concept conveying the idea of progress toward a world society—a project that goes beyond economic integration into governmental and social structure, and even culture and consciousness[27]—globalization was weakened as a force in Australian

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thinking about international trends as a consequence of the Crisis. The message that the country would become more, not less, healthy as a result of the further internationalization of its economy expressed a preference for a specific economic vision and not a holistic understanding of globalization. It was an expression of "internationalist nationalism"[28]—an approach that entails the vigorous opening up of the Australian economy, a determination to achieve success in the competitive world market, and a commitment to Australia being active in other ways on the international stage. The Australian Foreign Minister, for instance, was appealing to this form of nationalism during the Crisis when, with some justification, he spelt out the different ways in which Australia was assisting other countries in the region. Not only did Australia give economic aid, he also explained that it engaged in projects aimed at lifting the standards of financial management in the region and correcting the structural weaknesses in the international financial architecture. Australia, he said, was promising to be "a very significant country indeed", and an "all-weather" friend of the region, prepared to "match our actions" to our rhetoric".[29]

Above all, then, the Crisis entrenched an important national economic narrative in Australia. The Crisis was seen to provide added justification for the reforms that had been implemented in the 1980s and 1990s. During these years steps were taken to reform the economy of the country, removing the protection that had supported Australian industry and commerce over the previous eight decades and including freeing up the labour market. With the onset of the Asian Crisis in 1997, the message Australian leaders delivered was that their country was surviving the Crisis precisely because it had already undergone those liberalizing reforms.

This narrative, it is clear, is specifically national rather than global. Universalist aspirations prevalent in Australia in the pre-Crisis period—aspirations which held out the hope that all the countries in the Asian region were following a broadly similar path of political and social development as well as economic integration—could be seen to be contradicted by developments occurring in the region during the Crisis. The increase in accusations about cronyism and "money politics" in Asian countries tended to strengthen the impression of fundamental differences between "Western" and "Asian" ways of doing business. The turmoil in Indonesia, the violence at the birth of East Timor, the burgeoning of piracy, the rise of political Islam in Malaysia, the apparent military role in the overthrow of the President in the Philippines, the heightened historic tension between Thailand and Myanmar, and other forms of unrest in Southeast Asia—all in their different ways have given the impression that the political and value systems of the region

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have moved more slowly than some commentators had realized toward conformity with Western norms. The knowledge that influential figures in Asian societies interpreted the economic crisis in terms of a Western threat, and were tenacious in defending "Asian" forms of development and "Asian values", has only tended to add to the skepticism about the prospects of a global social vision with respect to Australia's immediate region. Today it is the Bali bombing (not, for example, the Kuala Lumpur "Twin Towers") that is becoming emblematic of Southeast Asia for many Australians.

Conclusion: Globalization, Asian Regionalism, and Investor Skepticism

The observations made about Asian perceptions in this article, of course, have themselves the capacity to contribute to doubt about the future convergence of value systems in the region. But the question might be asked whether, as a result of the Asian Financial Crisis, and the way that Crisis was perceived in the societies concerned, the concept of globalization is subverted or merely refined. During the Crisis, as we have seen, there was real evidence of continuing commitment to internationalization in the widespread adoption of economic and governance reform principles. Unlike the impact of the Depressions of the 1890s and 1930s on Western countries, the Asian Crisis does not appear to have brought about a fundamental change in economic policy. Furthermore, the fact should be underlined that the "shrimp" narrative, the Thai and Malaysian preoccupation with sovereignty, and so forth, are not phenomena generated by the Crisis. On the contrary, the events commencing in 1997 may have been more important for exposing rather than stimulating such local perspectives. In this sense the different regional responses to the Asian Crisis are a reminder that at the same time that economies are being integrated, the globalization of societies and value systems always involves accommodation. Developments occurring in the Asian Crisis, at the very least, provide support for the judgment that economic internationalization does not necessarily reduce plurality in political and cultural affairs. If we choose to speak of globalization in a way that extends beyond economic change, it is the complexity of the process that must be stressed, and in particular the observation that social change brought about by global processes entails all types of fusion with local perspectives, some of which rival or compete with others.

The East Asian Financial Crisis, therefore, was one of those phenomena that lay bare the different strands of what many refer to as "globalization". It demonstrated the continuing strength of

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internationalization as an influence on the economies of the region, but also drew attention to the long-standing potency of nationalisms and other local perspectives, both inside and outside the Asian region.

In examining post-Crisis developments and prospects, one question that might be considered in particular is how far the anti-Western interpretations of the Crisis have fuelled recent moves to strengthen Asian regionalism. To what extent is the comparative success of exclusive Asian regionalism (ASEAN Plus Three) as opposed to Asia-Pacific regionalism (for example, APEC) influenced by experience of the Asian Crisis?[30] Was the sharpening of anti-Western suspicions at this time also responsible, for instance, for the ASEAN decision in Chiang Mai in October 2000 not to proceed as had been anticipated with a merger of the ASEAN Free Trade Area (AFTA) with the Australia-New Zealand CER process? Other divisive issues have arisen with Australia and other Western countries in the Asia-Pacific grouping, but the contribution of an "Asia-only" spirit was also evident in November 2002 (at the ASEAN Summit in Phnom Penh), when the decision was made not to invite Australia to be a regular dialogue partner in the annual summits of ASEAN Plus Three.[31]

The impact of the Financial Crisis—and not just the fact of the humiliating collapse—on Western perceptions needs also to be underlined. The knowledge that there are divergent understandings of the Crisis—particularly differences between Western perceptions and those prevailing in many quarters in the Asian region—might well add to the factors encouraging Western as well as Asian societies to be less optimistic (and enthusiastic) about the prospects for any inclusive, open regionalism in this part of the world. On top of this, of course, the security situation and the panic over the SARS epidemic have continued to fuel a Western skepticism (including investor skepticism), particularly regarding Southeast Asia.

Looking back today at Asian responses to the Crisis—especially in the context of the explosion of Islamic resentment toward the United States (even before the Iraq War), and the multiple ethnic, religious and national tensions that are so evident in the region—it is understandable that the idea of globalization has lost a good deal of its potency. When used in a manner that implicitly promises more than economic internationalization, and seems inevitably to conjure up a vision of a world society, the concept appears increasingly to be inadequate as a description for the range of political and cultural changes taking place across the world today. It will not be surprising if we hear less about "globalization" in the next months and years, at least as a term that signifies more than economic integration.

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NOTES

1. This article is a report on a workshop held under the auspices of the Academy of Social Sciences in Australia. It is based on presentations given at that workshop by Amrih Widodo, Gordon de Brouwer, Ross Garnaut, Deborah Johnson, Craig Reynolds, Ken Wells and Michael Wesley. Preparation of the paper entailed extensive discussion with Ross Garnaut. An earlier version of the text was presented at the 14th AASSREC (Association of Asian Social Science Research Councils) Biennial General Conference in Hanoi.
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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Sino-Japanese Relations: Implications for Southeast Asia

JIAN YANG

Sino-Japanese relations are still in the shadow of the past. Without much mutual trust, China is wary of Japan's military capability and desire to be a political power. China's policy toward Japan has largely reflected its perceptions although the two do not necessarily mirror each other. It is in China's interests to forge a constructive relationship with Japan. However, a series of challenges will test the wills and skills of both leaderships. As a region of strategic importance for both China and Japan, Southeast Asia is poised to benefit from the strategic competition of the two Asian giants. Yet at the same time, ASEAN should play an active role in strengthening regional security order by involving China and Japan into regional confidence-building measures and economic co-operation.

Introduction

China's post-Cold War relations with Japan have been largely stable. Yet this stability can hardly disguise the uneasiness in that relationship. Domestically, according to a latest public opinion poll conducted by the Institute of Japanese Studies, the Chinese Academy of Social Sciences, only 5.9 per cent of Chinese said that Japan was "very friendly" or "friendly" while 43.3 per cent said the opposite. In Japan, the number of those who think China friendly has experienced a dramatic fall, from 75.4 per cent in 1985 to 47.5 per cent in 2001 and the number of those who think China unfriendly reached 48.1 per cent in the same year.[1] Internationally, while China is concerned about the increasing

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expansion of the Japanese military's role, Japan is worried about the "China threat".

Sino-Japanese relations are destined to have a profound impact on Southeast Asia. After all, as noted by Stephen Leong, "For Asia to be secure, Japan and China have to be getting along...Otherwise the security architecture of Asia will fall to pieces."[2]

This article will first examine China's political and security relations with Japan in the past decade or so by looking at China's perceptions of, and policies toward, Japan. It will then discuss the opportunities for, and challenges to, Southeast Asia.

Perceptions: Increasing Distrust

In the years immediately after the Cold War, China had to redefine its main potential threats. According to Chu Shulong, Japan was likely to replace the Soviet Union/Russia to become the Chinese leadership's major concern.[3] David Shambaugh also noted that, in a meeting convened in late 1993, most (60 per cent) Chinese strategic planners believed that Japan would become China's major rival and enemy.[4]

China's perceptions of Japan as a security threat became more complicated after 1996, when the Taiwan Strait crisis highlighted the possibility of a military clash between China and the United States over Taiwan.[5] Just one month after the dangerous escalation of the Taiwan Strait crisis, U.S. President Bill Clinton and Japanese Prime Minister Ryutaro Hashimoto held a summit meeting in Tokyo and signed the U.S.-Japan Joint Declaration on Security—Alliance for the 21st Century. The crisis and the joint declaration as well as subsequent revision of the 1978 Guidelines for U.S.-Japan Security Cooperation deepened China's suspicion of U.S. motives regarding Taiwan and, in the longer term, U.S. strategy toward a rising China.

Strengthened suspicion toward the United States has only deepened China's sense of insecurity; it has by no means alleviated Chinese concerns over Japan. Indeed, as noted by Thomas J. Christensen, "Although they [Chinese analysts] harbour suspicion toward the United States, they view Japan with even less trust and, in many cases, with a loathing rarely found in attitudes toward America."[6]

Chinese concerns over Japan are generated by a number of factors. The two factors most widely discussed among Chinese analysts are the historical legacy and Japan's military capacity.

Japan's aggression and atrocities committed in China in the first half of the 20th century continue to bedevil Sino-Japanese relations. The Chinese believe that Japan has not adequately acknowledged and apologized for its aggression and atrocities. Although Japan has expressed

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remorse and introspection on a number of occasions and Prime Minister Tomiichi Murayama in 1995 for the first time used the word "apology" in his statement about Japanese aggression, these efforts have been offset by senior Japanese leaders' "gaffes" about the past. The Chinese tend to emphasize facts like the Japanese Diet's failure to pass a resolution apologizing for Japan's wartime crimes. They find that their dissatisfaction is further justified by the sharp contrast between Japan's attitude toward the past and that of Germany. The Chinese today remain acutely sensitive to any Japanese attempts to deny, mask or embellish historical facts, such as the Japanese textbook controversy and official visits to the Yasukuni Shrine.

Still in the shadow of the past, the Chinese are concerned about Japan seeking a greater political role in world politics. What worries them is that, to play a greater political role, Japan will have to rely on not only its economic strength but also its military power. It is believed that there are powerful domestic forces in Japan that seek reassertion of Japan's military role. The revision of the guidelines for U.S.-Japan defence co-operation is perceived as an indication of Japan's determination to be involved in international affairs through military activities.

The past might not be that important if Japan were not so powerful. As Barry Buzan pointed out: "One has to ask...how much of this sensitivity is actually to do with the war and how much of it simply uses the symbolism of the war to reflect more contemporary worries."[7] Japan is an economic superpower and its military, Chinese observers believe, is much stronger than it appears. They tend to stress that Japan's Self-Defence Force (SDF) is the best-equipped military force in Asia and that Japan's defence spending is the second largest in the world. The high proportion of officers in Japan's otherwise small force is seen as giving Japan the ability to expand rapidly in wartime. A military observer claims in *Renmin Ribao* (People's Daily) that what Japan's military really has "is more than its fame".[8]

The changes in Japanese defence concepts have also caused concerns. It is believed that the policy of "homeland defence", which required strictly limiting defence to Japan's soil and passively meeting an enemy attack, no longer exists. This has become obvious since the 1996 Clinton-Hashimoto joint declaration on the bilateral security alliance. The mainstream Chinese perception is that the declaration and the subsequent revision of the Guidelines is a clear indication of Japan becoming a military power. The Japanese Diet's approval of the revised guidelines in May 1999 meant that for the first time Japan was legally free to support U.S. armed forces and participate in combat operations outside of Japanese borders, giving Japan an opportunity to ease the constraints on its use of military power.

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The Chinese believe that United States' war against terrorism is a golden opportunity for Japan to become a "normal country", namely a country with political power commensurate with its economic strength, as it provided opportunities for Japan to send its military overseas. Japan did send its military to Cambodia in the early 1990s—however, this was as part of the United Nations peacekeeping operation. Gradually, the Japanese military will expand its role and it will not be long before Japan revises its Peace Constitution to enable Tokyo to send military forces overseas freely.[9]

Japan's agreement in September 1998 to research theatre missile defence (TMD) jointly with the United States has been of more immediate concern for the Chinese. They believe that TMD is designed to counter not only North Korea's missile threat but also China's missile capabilities. "China cannot help being concerned about (Japan's) military intention of 'killing two birds with one stone' ", a Chinese analyst said.[10] Another analyst argues that TMD is a system incorporating both defensive and offensive capabilities. Japan is therefore currently "producing shields for the ultimate goal of making swords".[11]

Not all Japan experts in China are equally concerned. Jiang Lifeng, for instance, believes that although the distrust between China and Japan on security matters is not going to disappear in the near future, for a fairly long period, Japan is unlikely to be a security threat to "China...The possibility of Japan becoming militaristic as it was before the (Second World) War no longer exists".[12]

Indeed, China's perceptions of the Japanese military are complicated. Even those who believe that Japan's role is no longer purely defensive after the revision of the Guidelines may also acknowledge that the adjustments to the security alliance do not constitute a "licence" for Japan becoming a political power. It is believed that United States' long-term strategy in the region is to prevent the emergence of a great power or "a big-power bloc" that would challenge it. What the United States wants from Japan is a strong assistant who may help strengthen America's dominant position in the region. The Chinese tend to agree that the real intention of United States strengthening its alliance with Japan is to put a lid on Japan's militarization. Given the fact that many Japanese have become more assertive and dissatisfied with being a junior partner in Japan-U.S. security ties, some Chinese analysts do see it necessary to revitalize the U.S.-Japan security alliance to prevent Japan from becoming too independent in making security policies. The problem for these analysts is that China is being made the imagined enemy and Japan is taking the opportunity to expand its military. Chinese analysts thus seem to be in a dilemma. On the one hand, they would like to see U.S. protection of

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Japan continue so that the latter will not feel compelled to rapidly build up its own military. On the other hand, they believe China is now being targetted and Japan's military role is expanding anyway.

Some China watchers have noticed that younger generation Chinese analysts tend to maintain a more positive view on Japan and believe China should examine its own behaviour. For example, Allen S. Whiting noted in 1989 that some junior Japan specialists in China pointed out that the Chinese should learn more about Japan and should not be biased against the Japanese.[13] Bonnie S. Glaser observed in 1993 that some younger generation Chinese analysts believed that the world was increasingly interdependent in both economic and security terms and that a Japan with greater political power would not necessarily result in a remilitarized Japan.[14] More recently, Thomas J. Christensen pointed out that some younger Chinese experts (appearing to be in their forties or younger) with extensive experience abroad did recognize that Chinese military strengthening and provocative actions could result in Japan's military buildup.[15]

However, the influence of these younger generation analysts has been limited so far. A striking feature in Chinese society with regard to Japan is that despite deepened economic integration and increased social and cultural exchanges between the two countries, there is still strong anti-Japanese sentiment in China. The sentiment tends to magnify the Japanese threat. This is especially so given the fact that Chinese security analysts "think more like traditional balance-of-power theorists than do most contemporary Western leaders and policy analysts".[16] Equally important, there is in China a strict censorship on critical comments about China's foreign policy. It is hardly acceptable to make even mild criticisms. Nevertheless, an increasing number of Chinese analysts are trying to look for alternatives to China's current approaches to issues like the historical legacy. This may reflect a possible change of mind in Chinese leadership to be discussed later.

To end this section and before we come to the examination of China's policy toward Japan, it is necessary to put the discussion of Chinese perceptions into perspective. Bin Yu noted in 1994 that although more actors had been involved in China's foreign policy-making since the 1980s, the role of the Ministry of Foreign Affairs remained indisputable. He even suggested that China's foreign policy-making bodies tended to distrust scholarly writing on foreign policy.[17] Although the observation is by and large justifiable, it should not be taken for granted. Indeed, while perceptions are mainly expressed by specialists and scholars, policies are made by government officials and a gap exists between the two communities. However, the gap is narrowing with a more pragmatic Chinese foreign policy and a more bureaucratic

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policymaking process. As Bonnie S. Glaser and Phillip C. Saunders point out, "A more pluralistic and competitive policy environment has given analysts at think tanks more influence."[18]

Policies: Of Distrust and Interest

China's policies toward Japan reflect its mainstream perceptions. During the March 1991 National People's Congress session, Foreign Minister Qian Qichen said that it was "naturally necessary" to maintain vigilance against Japan's militarism because there was a possibility that a small number of Japanese would try to develop the military forces beyond the needs of self-defence. Hence China was especially concerned about Japan's Peace Keeping Operation (PKO) bill that permitted up to 2,000 members of the SDF to be dispatched overseas for UN-sponsored peacekeeping operations.

China has been reluctant in supporting Japan to play a greater political role, regionally and globally. An important indication is China's attitude toward Japan's quest for a permanent seat at the UN Security Council (UNSC). China, along with Russia, France and Britain have been reserved on the increase of the UNSC permanent members.[20] China's position on Japan's quest has been lukewarm at best. Beijing fears that this will provide international legitimacy for Tokyo playing a greater global role, perhaps with military forces. In June 1994, Jiang Zemin said that the Chinese "understand and attach importance" to Japan's wish. "China is in favour of expanding the size of UNSC when the time is ripe to reflect the reality of the changing international situation, and the increasing number of UN members," Jiang claimed. But at the same time, he maintained that "the wealth of a country should not be the sole condition taken into consideration, and that the principle of fair regional distribution, and the principle of unanimity in consultation should be fully honoured in approaching this issue".[21]

Jiang's remarks could be regarded as China's opposition to Japan's UNSC bid. First, Japan's UNSC ambition had been largely based on its economic strength. A senior Japanese Foreign Ministry official said in mid-1994 that "the UN question is basically a question of money." Japan would be raising its contribution to the UN budget soon from 12.4 per cent to 15 per cent. "That should give us a right of entry," the official claimed.[22] Second, both China and Japan are situated in Northeast Asia. Japan's entry would not be in accordance with the principle of fair regional distribution. Third, some countries, such as South Korea, had explicitly expressed their opposition to Japan's UNSC bid or were reserved on the issue. China's position on the issue has remained largely unchanged ever since.

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In the field of security dialogue and military exchanges, the Chinese military was rather active in the 1980s but reserved in the 1990s. In the 1980s, while many high-ranking People's Liberation Army (PLA) officers visited Japan, no officials of comparable rank from Tokyo visited China in any capacity. One major reason was that the Japanese believed that the exchanges could help to modernize the PLA and that the Chinese had more to gain from military visits than Japan.[23] In the 1990s, believing China's military modernization was a potential threat, Japan became more active and strengthened its efforts to encourage China to participate in security dialogues and other forms of confidence-building measures (CBMs). The belated first round of security talks was finally held in December 1993, followed by a second round of talks in January 1995 when China invited the Chairman of the Joint Staff Council of the SDF to visit China.

The next three years, however, revealed the fragility of security relations between Beijing and Tokyo. A series of events made it impossible for the two countries to make meaningful progress in this aspect. China conducted nuclear tests in May and July 1995. The issue was followed by the Taiwan Strait crisis in which China staged military exercises and tested its missiles in waters close to Taiwan. Although the exercises and tests were aimed at intimidating Taiwan, they shocked the Japanese. Then came the upgrading of security ties between Tokyo and Washington and Japan's decision to join the TMD research. Beijing repeatedly voiced concerns over Japan becoming a military power and protested against the inclusion of Taiwan in U.S.-Japan security co-operation and the TMD programme. Qian Qichen stated in September 1997 that "If the (U.S.-Japan security) treaty is a bilateral treaty, there is no need to make a new agreement, so China can only think that this is a new kind of treaty." He harshly criticized the revised guidelines, saying "The more one tries to hide, the more one is exposed."[24]

China has been more active on security talks and military exchanges since 1998.[25] The revitalized military exchanges, however, do not necessarily signal a significant change of Chinese perceptions of, and policies toward, Japan. The exchanges should be seen in the context of China's more active attitude toward defence-related talks with other countries. In 1999 approximately 33 senior-level delegations from the PLA visited nearly 50 countries, while 89 groups of foreign army leaders were received in China.[26]

The increased military exchanges also reflected Beijing's pragmatism and flexibility in its policies toward Tokyo. Although Beijing has been firm in warning against the "revitalization of Japanese militarism," it has been careful not to let the history issue derail the bilateral relationship. When the Gulf War triggered the Japanese debate

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over peacekeeping, China expressed fears that this would be a harbinger of Japanese militarism. Yet when a watered-down PKO bill was finally passed in June 1992, Chinese criticism was somewhat muted.[27]

Another example is Beijing's much restrained reactions toward the Diaoyu (Senkaku) Islands dispute. The dispute attracted much public attention inside and outside China after a Japanese rightist group built a lighthouse on the disputed territory in July 1996. Tens of thousands of overseas Chinese in North America and people in Taiwan and Hong Kong protested against the Japanese act. While Beijing was firm in claiming sovereignty over the islands, it was careful not to whip up Chinese nationalism against Japan. Tong Zeng, perhaps the most prominent anti-Japan campaigner in China, was sacked because of his activism. Beijing's restraint partly lay in its realization that nationalism is a double-edged sword and demonstrations against Japan could turn into anti-government protests. Equally important, Beijing was determined not to let the issue overshadow the big picture of Sino-Japanese relations.[28]

China's pragmatism in its Japan policy is determined by its overall security strategy which is largely based on the Chinese leaders' world-view, the hierarchy of national interests and the regional security environment.

Although the Chinese leaders' world-view since the end of the Cold War has been less ideology-oriented, "westernization" is still regarded as a major threat to the Chinese Communist Party (CCP) and the Chinese government. Pressure on human rights from the West, especially from Washington, is regarded as part of the subversive "peaceful change" strategy to alter China's political system and hence a threat. This world-view has provided strong incentives for Beijing to strengthen its relations with Tokyo. The fact that Japan lifted sanctions not long after the Tiananmen Square crackdown shows that Japan poses little political threat to the CCP and the Chinese government.

China's hierarchy of national interests has been characterized by Beijing's emphasis on enhancing "comprehensive national power" in which a powerful modern economy is essential. Indeed, to enhance comprehensive national power has been China's "national strategy" since the 1980s and "Economic development is the highest goal in making external strategies".[29] It is clear that Japan has played a vital role in China's economic reform and development.

In terms of the regional security environment, China is aware that the rise of China has made some of its Asian neighbours nervous. These countries would like to have a strong force to balance China. The subdued Southeast Asian reaction toward upgraded US-Japan security alliance is a clear sign. It should also be noted that as "one of the

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outstanding achievements of postwar Japanese diplomacy",[30] Japan has strengthened its relations with members of the Association of Southeast Asian Nations (ASEAN). More importantly, hard-line policies toward Japan could backfire and strengthen Japan's willingness to assist the United States in its strategic deployment against China. A good relationship with Japan is therefore essential for China to alleviate its Asian neighbours' concerns and to create a favourable regional security environment for its economic development.

Implications for Southeast Asia

Sino-Japanese relations have had a strong impact on Southeast Asia. For both China and Japan, the China-ASEAN-Japan triangular relationship is now perhaps the second most important relationship, after the China-America-Japan triangle. China has scored better in strengthening relations with ASEAN in the past decade, with leaders exchanging visits to "patch up ancient differences and sign substantive agreements on everything from border demarcations to trade and even military co-operation."[31] One key reason is that, as part of its policy to improve its relations with all peripheral states, China has been more determined and has had a clearer vision for its relations with ASEAN. Japan made substantial progress in improving its relations with Southeast Asia in the 1970s and 1980s. In the post-Cold War years, although Japan has strengthened the relations, its efforts have been constrained by its poor economic performance. More importantly, Tokyo was not sure what kind of role it should play and was often in a dilemma of balancing its relations with Southeast Asia against those with its allies, mainly the United States and Australia. Indeed, one major factor hampering Japan's closer relationship with Southeast Asia has been an identity problem. Japan used to identify itself with the West and had reservations about integrating with Southeast Asia, especially when its relations with these countries might hurt the interests of its Western allies.[32]

Southeast Asia is likely to maintain its strategic advantage in its relations with China and Japan in the years to come. First, Southeast Asia is a key to regional influence. One Chinese strategic thinker notes that so long as China is able to pre-empt Japan in Southeast Asia and the Korean Peninsula, Japan will be in no position to compete with China in Asia.[33] Second, Southeast Asia has its own geo-political significance for both China and Japan. After all, much of their trade and oil from the Middle East pass through the region. The region is also Japan's important source of raw materials. Third, with a population of 450 million and growing economies, Southeast Asia has obvious economic importance.

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For China, Southeast Asia's importance also lies in some other considerations. First, ASEAN is crucial to the Chinese strategy of promoting multipolarity. Second, Southeast Asia is important in China's effort to counter the perceived U.S. containment strategy.[34] China has used the ASEAN Regional Forum (ARF) as a means to question U.S. bilateral alliances in the region.[35] Third, Southeast Asia offers one of the best opportunities for China to discredit the persistent "China threat" theory. Malaysian Prime Minister Mahathir Mohamad's statement that "China should be viewed as a country with enormous opportunities rather than perceived as a threat" is the message China endeavours to send.[36] Fourth, Southeast Asia could be China's ally in resisting the West's pressure on issues like political liberalization and human rights.[37] Finally, closer relations with Southeast Asian nations would make it harder for Taiwan to build up its political ties with these nations.

One major step for both Tokyo and Beijing is to deepen their economic co-operation and integration with ASEAN. This is especially so for China given that some ASEAN members are concerned about China's economic threat. China will continue its efforts to convince these countries that its economic development is an opportunity rather than a threat. Indeed, not only will China be a huge market for ASEAN members, its threat to these countries in attracting foreign direct investment may have been exaggerated.[38]

It is unlikely that Southeast Asia will suffer from a violent China-Japan rivalry in the foreseeable future although the two giants may well intensify their competition in world politics and particularly in Southeast Asia. China will continue its current policy toward Japan. On the one hand, China will keep a wary eye on Japan's military power and its ambition to become a political power. On the other hand, it will continue to focus on its national strategy of enhancing comprehensive national power in which Japan plays an essential role. It is widely believed in China that to develop economy and enhance national power still is China's "ultimate solution (*genben chulu*) to all internal and external problems".[39] Also, as noted earlier, a positive relationship with Japan will help reduce the pressure upon Japan to further deepen its security ties with the United States and to speed up the strengthening of its military.

On the Japanese side, economic relations with China will also be a major stabilizing factor, although trade disputes will occur from time to time. On the more problematic political front, although there is an increasingly strong desire of Japan becoming a "normal country", an expansionist Japan is simply beyond the imagination of most Japanese.[40] Concern over China is just one of many reasons for Japan's "normal country" ambition.[41] Many Japanese analysts interviewed emphasize that it is also a matter of international responsibility. The rise of China

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is a concern mainly because of China's lack of transparency, different political values and the impression that, as one junior analyst who studied in China put it, "the Chinese do not respect Japan." To address the concern, they believe, engagement with China is most appropriate.

However, Southeast Asian nations' relations with China and Japan can be very delicate due to a number of challenges to Sino-Japanese relations. The historical legacy will remain a major challenge to political leaders in both Tokyo and Beijing. Almost all Japan experts we interviewed in China in the past few years believe that it is extremely unlikely that Japan will make an apology satisfactory to the Chinese,[42] while most of the Japanese analysts interviewed in Japan by the author are reserved on the issue. The same junior analyst's view may represent the feelings of many Japanese: "Japan could make a further apology if China is ready to accept it and close the matter."[43] This view highlights the long-held suspicion in Japan that China has been using the issue to squeeze Japan and to prevent Japan from playing a bigger political role and that China does not have interest in letting bygones be bygones.

Beijing now faces a dilemma on the history issue. Tough stance on the issue may serve it well domestically but could exacerbate Japan's intransigence and further strengthen Japanese nationalism and resentment against "apology diplomacy" as demonstrated in Jiang's 1998 visit.[44] The result could be an even deeper mutual distrust between the two giants. This concern underlined Zhu Rongji's efforts to tone down his stance on the history issue in his visit to Japan in October 2000.

Zhu's visit, China's reactions in the 2001 textbook controversy which were much more restrained than those of South Korea, and the fact that Zeng Qinghong, a leading Chinese politician, went ahead with his visit to Japan in April 2002 despite Beijing's fury at Japanese Prime Minister Junichiro Koizumi's visit to the Yasukuni Shrine, may all signal China's new approach to the history issue. However, the effectiveness of this new approach in building long-lasting mutual trust is uncertain. The difficulty of walking out of the shadow of the past is well illustrated by Japan-South Korea relations. After the October 1998 joint communiqué in which Japan expressed remorse for the "unbearable suffering" inflicted on the Korean people, Japan-South Korea relations achieved substantial improvement, especially in trade. However, after Japan's Education Ministry approved the "revisionist" textbook in April 2001, much of South Korea's goodwill and reconciliation evaporated and Tokyo-Seoul relations experienced a free fall.

History used to be a major factor affecting Southeast Asia's perceptions of Japan. During World War II, Japan rapaciously exploited

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Southeast Asia's resources and committed grave atrocities. For that reason, despite strong economic relations, ASEAN was wary of Japan's political role in the post-war years. From the mid-1970s to the late 1980s, with Japan taking an active interest in the political affairs of Southeast Asia, Southeast Asia's perceptions of Japan experienced a steady evolution toward acceptance. By now, although there is variance among ASEAN members, in general "history has diminished as a determining factor in defining ASEAN's perceptions of Japan".[45]

Southeast Asian nations should remain sensitive to the feelings of the Chinese and not take a strong position on the historical dispute between China and Japan. In 1994, Malaysian Prime Minister Mahathir Mohamad said that Japan should not continue to apologize for things that happened half a century earlier when the then Japanese Prime Minister Tomiichi Murayama expressed remorse for the suffering Japan inflicted on Southeast Asia during WWII.[46] The Chinese might not have felt particularly offended as Mahathir appeared to be speaking about the history issue between Japan and Southeast Asia, although the implication was much wider.

A bigger issue is China's reactions to Japan's long march toward political power status. China will continue its efforts to slow down Japan's long march. Some Chinese analysts publicly advocate that China should play the "Japan card" in dealing with the United States and "conditionally" support Japan's political ambition.[47] This view is not widely accepted largely because the Chinese can hardly overcome their deep-rooted suspicion toward Japan. Also, a soft stance on Japan, especially on the history issue, remains politically unwise in China.[48] This does not mean China will show no flexibility on Japan's political ambition. The Chinese have long realized that "That Japan becomes a political power and seeks to play a political role commensurate with its economic standing is an inevitable trend in its post-war historical development"[49] and that China should deal with the problems of Japan becoming a political power "case by case" (*juti duidai*). Thus, on the issue of Japan becoming a permanent member of the Security Council, although China is likely to remain noncommittal, it will leave the choice open.

Most Southeast Asian nations are rather relaxed about Japan becoming a political power, even through military means. Lee Kuan Yew's concerns that the despatch of Japanese military forces on overseas operations was similar to giving liquor chocolates to an alcoholic were not shared by other Southeast Asian nations.[50] In fact, Lee himself changed his stance one year later.[51] Jusuf Wanandi said in 1994 that Japan's leadership was an important factor for the stability of the region

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in the future. "This leadership should not be confined only to the economic sphere, but should also include the political and to a certain extent the security field", said Wanandi.[52]

By the 1990s, Japan had already won much trust in Southeast Asia. When the Japanese lower house in June 1992 passed the PKO bill, the Philippines, Thailand and Malaysia endorsed the Japanese move.[53] Before that, in March 1991, Indonesia's then President Suharto said to a senior Japanese politician that it was Japan's sovereign right to decide whether to send troops overseas on peacekeeping missions under UN auspices.[54] Then in January 1993, Mahathir told visiting Prime Minister Miyazawa that he hoped the SDF in the future would be able to participate fully in peacekeeping operations without restrictions imposed by the Japanese Diet.[55] Southeast Asia did not react negatively to the upgrading of U.S.-Japan security alliance in 1996–97 either. The position partly reflected these countries' belief that United States' involvement and a more active Japan are desirable in counterbalancing China's increasing power.

Southeast Asian nations still have much room to manoeuvre in encouraging Japan to play a bigger political role without damaging their relations with China. After all, China is eager to have good relations with its neighbours and does not want to be perceived as seeking dominance or hegemony in the region. However, suggestions like the one made by President of the Philippine Senate in 1999 that Japan should seriously consider arming itself with nuclear weapons could have gone too far.[56]

An issue which has already had a significant impact on Southeast Asia's security is China's military competition with Japan. China will not enter into an arms race with Japan in the near future. However, as mentioned earlier, it is widely accepted among Chinese analysts that Japan will further strengthen its military and, more importantly, will sooner or later amend its Peace Constitution to accommodate its military activities overseas. China may not see Japan as posing an immediate military threat, but may nevertheless feel pressured to speed up its military modernization. Indeed, in Michael J. Green's words, there are "ingredients for a classic defense dilemma" between China and Japan.[57]

China's military competition with Japan will inevitably affect Southeast Asian nations, especially those who have territorial disputes with China, most notably in the South China Sea. The region's concerns about China derive from the fear of less U.S. commitment to the region after the end of the Cold War, China's increasing power, and the shift of the region's security focus from internal security such as counterinsurgency and protection of political regimes to external security like territorial integrity.[58] However, these concerns should

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not be exaggerated. "ASEAN eyes China with concern but not alarm," says Allen S. Whiting. "There is no anticipation of an expansionist China seeking to take over any country by attack, subversion, or economic domination".[59]

It appears that Southeast Asian nations' post-Cold War arming has been directed more toward balancing their neighbours than China. Whiting found in 1997 that "none of the recent increase in arms is attributed to the China factor."[60] Indeed, Southeast Asia's military option in dealing with the perceived "China threat" is limited. The ten nations are aware that they cannot hope to balance China by themselves and the impression that Southeast Asian nations are ganging up on China would derail the process of engagement.[61]

A more obvious impact of the China factor is the region's efforts to maintain defence links with external powers. Most of the existing bilateral and multilateral security agreements in the region have much to do with the local parties' uneasiness with China, including Singapore's 1990 agreement with the United States allowing U.S. naval vessels access to Sembawang Naval Base, the revision to the Five Power Defence Arrangement in the mid-1990s, the demised 1995 security treaty between Indonesia and Australia, and the 1998 Visiting Forces Agreement between the United States and the Philippines.[62]

Although China is acutely aware of Southeast Asia's security concern and, as mentioned earlier, has been keen to alleviate the concern and discredit the "China threat" theory, it has embarked on and will not stop its military modernization. China is set to upgrade its defence capabilities commensurate with its power status. Southeast Asian nations are realistic enough to accept this, but not without a condition. And the condition is "as long as its [China's] purpose and objectives are clear to her neighbours".[63] Although China has made efforts to increase its military transparency, it still has a long way to go. The issue remains a challenge to China-ASEAN relations.

Other issues between China and Japan that may have impact, direct or indirect, on Southeast Asia include China's movements in the South China Sea, the Taiwan issue, nationalism and the dispute over the Diaoyu Islands.

The issue of the South China Sea is the core security issue between Southeast Asia and China. Japan might be involved because of the importance of the sealane. It is simply natural that Japan will not sit by if it believes its vital interests there are in serious danger. However, Japan is sensitive to China's position on the issue and is likely to continue its current approach of encouraging multilateral dialogue,[64] which is in line with ASEAN's position. China has gradually come to accept multilateral talks. It is in the interest of ASEAN to carefully

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define the scope of "multilateral talks". It may derail the negotiation process if Japan is directly involved.

Taiwan poses a challenge for most countries that have diplomatic relations with Beijing. Japan and Southeast Asia are no exceptions. In late August 2001, Wu Dawei, China's ambassador to Japan, said that Sino-Japanese relations were facing their "toughest situation" since China and Japan normalized diplomatic ties nearly 30 years before and this was because of "the two most sensitive issues: those of history and Taiwan".[65] Wu was referring to the Japanese government's decision to grant former Taiwan president Lee Teng-hui a visa to visit Japan in April 2001. Japan's reluctance to make a clear statement like Clinton's 1998 pledge of "three no's"—no support for Taiwan independence, no "two Chinas" or "one Taiwan, one China", and no Taiwanese membership in international organizations that require statehood—and its refusal to explicitly exclude Taiwan from the scope of the Guidelines are worrying to the Chinese. With regard to the Guidelines, Japan is likely to maintain its ambiguity on Taiwan in the hope of "creating a situation in which problems cannot possibly be resolved by force", thus deterring Beijing from launching military attacks against Taiwan.[66]

As mentioned earlier, one of China's motives in strengthening relations with Southeast Asia is to squeeze Taiwan. At the same time, "the ASEAN states are probably the most important targets of Taiwan's pragmatic diplomacy" after the United States and Japan.[67] While China's trade with the 10 ASEAN states amounted to US$25.164 billion in 1997 and US$27.101 billion in 1999, Taiwan's trade with these states was US$29.708 billion and US$28.77 billion respectively in those two years and then jumped to US$38.709 billion in 2000.[68] Southeast Asian nations are thus often torn between Beijing and Taipei. In August 2002, for instance, Indonesia first humiliated Taiwan's Vice-President Annette Lu by not welcoming her to its capital. A few days later, Lu not only spent a night at Jakarta but also met with top Indonesian officials.[69]

However, Southeast Asia is different from Japan in that the former is eyeing Taiwan's money while the latter's intention is much more complicated, at least in Chinese eyes. After all, Japan is a big power with a history of colonizing Taiwan. More importantly, the Chinese suspect that Japan, like the United States, may well use Taiwan to contain China. This suspicion can hardly be applied to Southeast Asian nations. For example, while Singapore welcomed Taiwan's then President Lee Teng-hui for a "holiday visit", it warned Japan of the danger of including Taiwan in its security cooperation with the United States.[70] Beijing's different perceptions should mean more flexibility

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for Southeast Asian nations in dealing with the Taiwan issue although diplomatic skills are often essential.

It is in the interest of Southeast Asia to help reduce tensions across the Taiwan Strait. With regard to the China-Japan dispute over Taiwan, however, Southeast Asia's role is limited. After all, they themselves are vulnerable to criticisms from both Beijing and Taipei. That Singapore could warn Japan of the Taiwan issue was because of its unique position of enjoying the trust of both Beijing and Taipei. For other Southeast Asian nations, the best policy is not public involvement but quiet persuasion and to involve China and Japan in regional security dialogues.

Nationalism in both China and Japan highlight the necessity of regional security dialogues. Nationalism makes the conflicts between China and Japan potentially explosive. Nationalism has been on the rise in Asia since the end of the Cold War. As noted by Hisahiko Okazaki, "In Europe, it may be true that the age of nationalism has passed...But in Asia the age of nationalism is now."[71] Understandably, the Chinese are concerned about rising nationalism in Japan, such as the debate on the revision of the Peace Constitution, the adoption of the *Kimigayo* as national anthem and *Hinomaru* as national flag. Yet on many issues, such as the Diaoyu Islands dispute and the history issue, Chinese nationalistic sentiment could easily run wild if it were not controlled by the government.

As witnessed in the past few years, the Diaoyu Islands dispute will trouble Sino-Japanese relations from time to time. A recent example happened in January 2003. On the very first day of the year 2003, Japanese media reported that the Japanese government had signed a 20-year contract to lease Kubashima Island of the Diaoyu Islands from a private owner. Beijing blasted the leasing as invalid. Most Chinese observers believe that this is a Japanese government plot and that anti-China forces were setting up the stage for Sino-Japanese conflicts in a new year.[72]

All this points to the importance of the establishment of confidence building measures (CBMs). Whether or not China and Japan are able to increase their mutual trust through CBMs in the region has much to do with ASEAN. For one thing, ASEAN "provides a model of confidence building measures *par* excellence".[73] For the other, both China and Japan were major factors leading to the establishment of ARF. While the rise of China and to include China "in a rule-based arrangement to encourage it in the practice of good international behaviour" was ASEAN's key concern,[74] Japan becoming a "normal country" and its possible repercussions was also high on ASEAN's security agenda. The failure in dealing with either of these two issues will constitute a fatal blow to ARF, and to the economic forum of ASEAN +3.

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The challenge to ASEAN is obvious. The process of establishing CBMs would be slow and volatile. To integrate China into the international community has been one of Japan's key strategic goals.[75] It is in Japan's interest to hold security talks with China and in promoting military exchanges. Japan will also continue to encourage China to participate in multilateral talks. China, on the other hand, is now much more open-minded in establishing CBMs and holding security talks. However, although "a growth industry",[76] multilateralism is relatively new to the Asia-Pacific and confidence-building mechanisms are traditionally weak in East Asia.[77] An old Chinese saying is that two tigers cannot live together peacefully on the same mountain (*yi shan bu rong er hu*). It will not be easy to convince the Chinese that their ancestral wisdom does not apply to the case of Sino-Japanese relations. There is no doubt that both sides hope for a win–win situation in a peaceful and constructive competition. Yet in reality, the traditional "zero–sum game" may prevail.

Conclusion

China and Japan are drifting further apart politically although economically they are getting closer. For the Chinese, the latest development of world politics is not encouraging at all in overcoming their distrust of Japan. It is now widely accepted that sooner or later Japan will revise its Peace Constitution and they are deeply concerned.

China's policies toward Japan in the past decade have been driven mainly by two forces: deep distrust of Japan and pragmatic consideration of national interests. Japan may not be trusted but is important to China's stability and the enhancement of its comprehensive national power. Hence conflicts over the history issue and concerns about the Japanese military's expanding role on the one hand, and pragmatism and flexibility on these issues and deepened economic relations on the other. Future Sino-Japanese relations face a number of challenges, including the history issue, perceived threat of each other, strategic competition, territorial disputes, the Taiwan issue and nationalism. Checked by distrust and interest, Sino-Japanese relations are likely to follow Sino-American relations and, in Zhu Rongji's words, remain "neither very good nor very bad" in the foreseeable future.

Southeast Asia is in an advantageous position to make good use of the strategic competition between China and Japan. This is evidenced in the eagerness of both Beijing and Tokyo to establish free trade areas with ASEAN. Strategic competition with Japan might also have played a role in China's decision to make financial contributions to the recovery

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of Southeast Asia, especially in the case of Thailand, from the 1997–98 financial crisis. China emerged from the crisis as a more responsible actor due to its resistance to devalue its currency in an effort to prevent the crisis from worsening, while fewer people in Southeast Asia, especially in Thailand, now believe Japan is doing its part in the international community relative to its economic power.[78]

Indeed, although Japan's relationship with ASEAN before the end of the Cold War was much stronger than that between China and ASEAN, China is catching up quickly. While Japan's trade with, and investment in, ASEAN has declined in recent years, China is now a market and economic powerhouse that ASEAN cannot turn away from. However, China faces a number of challenges in strengthening its relations with Southeast Asia, especially the challenge of winning the region's trust. China has a history issue of a different kind with some ASEAN members, such as its support for communist insurgencies in Southeast Asia in the years after the Chinese communists came to power in 1949 and the "punitive expedition" against Vietnam in 1979. Many ASEAN members are suspicious of China's intentions toward Southeast Asia, with the South China Sea disputes as the deepest thorn. Issues like its initial mishandling of the SARS crisis could also quickly offset the goodwill China has painstakingly demonstrated in the past. In addition, as noted by N. Ganesan, "ASEAN's relationship with China is also complicated by the multi-ethnic makeup of many of the member states in which Chinese economic dominance and prosperity is often a cause of envy and conflict."[79] Thus, despite its consensus that engagement is the only realistic policy toward China, ASEAN members would like to see a more active Japan, partly to balance the uncertain China. Whether Japan is able to live up to the expectation will depend on its own determination, its ability to engage the region more independently, and its economic and political development.

ASEAN is in a unique position to facilitate a peaceful strategic competition between China and Japan to make sure that the two giants will not fall into a hostile and violent rivalry. Despite suspicions and criticisms,[80] ARF remains relevant and important as the key security forum in the region. While ARF has scored some achievements, it still faces daunting challenges.[81] ASEAN + 3 is also facing challenges although it is playing an increasingly important role in deepening East Asia's economic interdependence. It is of great importance for ASEAN to overcome these challenges and strengthen regional security order by involving China and Japan into regional CBMs and economic co-operation.

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Contemporary Southeast Asia, Volume 25, Number 2, August 2003

Book Reviews

Coping with Globalization: Cross-National Patterns in Domestic Governance and Policy Performance. **Edited by Steve Chan and James R. Scarritt.** London and Portland, Oregon: Frank Cass, 2002. 216pp.

This edited volume is a welcome contribution to the debate on the impact of globalization on states. One of the primary aims of its editors was to avoid the unfortunate tendency common amongst some writers of globalization to engage in sweeping generalizations, often driven by ideological motivations, and overly reliant on anecdotal evidence rather than systematic empirical analysis to substantiate propositions. Using quantitative (regression), interdisciplinary and comparative analyses, the authors have provided a rigorous assessment of selected claims that have been made about globalization.

In putting together this volume, its editors, Steven Chan and James Scarritt, have selected six empirical chapters that address the human, social and political dimensions of globalization—issues that are currently hotly contested in the literature, especially between the extreme proponents of globalization and its harshest critics. By doing so, the authors also attempt to test the claim advanced by both these camps that globalization is indeed an inexorable force exerting uniform or homogenous effects (negative according to the detractors or extreme pessimists; positive for the proponents or extreme optimists) on states and societies that are, consequently, unable to mediate or influence these forces in any meaningful way.

The book begins with an excellent introduction by the editors that highlights key aspects of this debate. Chan and Scarritt devote

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considerable attention to discussing the complex nature of globalization. Not only do they view globalization as a multi-faceted phenomenon incorporating economic, cultural and political dimensions, they also reject the claim that globalization must be a linear, cumulative process that has identical effects everywhere. Chan and Scarritt also recognize that apart from states, inter-governmental organizations, multinational corporations, non-governmental organizations and local communities are key players in globalization. Far from being passive, these actors often mediate globalization processes in significant ways, generating divergent local/regional responses to globalization as a result. Some of them often promote globalization through their actions. This is a critical point in their chapter, which challenges the notion of globalization as a "powerful, impersonal, even natural" force "independent of human agency" (p. 6). Understandings of globalization that ignore both agency and its redistributive implications could unfortunately lead to policy decisions that worsen rather than ameliorate globalization's negative effects. The editors have, therefore, set the stage for the remaining six chapters, which engage in a rigorous examination of the consequences of globalization.

Chapters 2, 3, 5 and 6 address the social, economic and political implications of globalization. The literature contains two opposing arguments on these issues. Those writing within the neoliberal tradition—the proponents or optimists—essentially posit positive outcomes. Thus, globalization is expected to raise levels of economic and human development, as well as lead to higher standards of human rights in developing nations. Its detractors see globalization as an inherently destabilizing phenomenon, dragging down employment prospects, incomes and living standards while leading to increased wealth inequalities. Social tensions and conflicts that can emerge as a result, the pessimists argue, would likely lead to repression and human rights abuses in developing states as leaders attempt to maintain the political and social stability that investors demand. Which of these positions does the empirical evidence support?

Ross Burkhart in Chapter 2 finds that globalization has a strong positive impact on economic development (measured as per capita income) but a minimal impact on the broader concept of human development. When regional variations are considered, however, the data reveal that globalization has had a beneficial effect on human development in the world's poorer regions but a negligible effect on their economic development compared to the OECD countries. The results do not, therefore, provide unambiguous support for one or the other camp. The finding that globalization has harmed East Asian

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economic development while leaving human development unaffected is intuitively surprising, and clearly merits further study.

David Richards and Donald Gelleny in Chapter 3 find that neither trade globalization nor financial globalization has had any impact on respect for human rights (defined as rights against torture, disappearance, extra-judicial killings and political imprisonment) in African and Asian developing states. In contrast, financial globalization has had a positive impact on human rights in Latin America and the Middle East, lending some support to the neoliberal school. As in the previous chapter, the authors admit that their results do not provide unambiguous support for one or the other camp. Moreover, they caution against over-generalization given the regional variance revealed by their results, which raise additional research questions that Richards and Gelleny suggest require more detailed case-intensive analysis, a finding that also emerges from the other empirical chapters.

Chapters 5 and 6 address globalization's impact on the capacity of states to make autonomous economic policies. Susan McMillan shows in Chapter 5 that, contrary to the neoliberal view, the four ASEAN states studied (Indonesia, Malaysia, the Philippines and Thailand) were able to raise government spending to compensate for the risks arising from participation in the global economy, irrespective of the political system (democratic versus authoritarian) in place. While McMillan cautions against drawing generalizations from her limited sample size, her results do put a dent in the proposition that (developing) states are helpless in the face of globalization. Nita Rudra's analysis in Chapter 6 similarly casts doubts on the conventional wisdom that, given globalization, states must reduce spending on social programmes or face reduced competitiveness and capital flight. She argues, in fact, that rather than being a response to any real pressures, developing states may be reducing their welfare spending unilaterally simply because this is what they believe they *ought* to do in order to raise their international competitiveness. The author's findings, consequently, have significant policy implications, as do the other chapters.

The remaining two chapters look more closely at how politics impacts on globalization. Karen Ferree and Smita Singh show, in Chapter 4, that institutional changes that reduce electoral competition in Sub-Saharan Africa had an immediate and significant negative impact on growth. Political reform, on the other hand, did not produce an immediate growth dividend. While their findings contribute to ongoing debates on the relationship between democratization and economic growth, they also challenge the neoliberal proposition that simply opening up to globalization is all that is needed to reap its gains. Instead, the authors show that domestic political institutions matter.

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Similar findings emerge in Chapter 7, where David Leblang shows that expectations of domestic political uncertainty in the form of impending leadership change by non-constitutional means increase the probability of a speculative currency attack. His findings, based on quantitative analysis of 87 developing countries between 1970–96, supplement prevailing accounts that emphasize economic factors in precipitating currency attacks. The chapter would, however, have benefited from some discussion of the Asian financial crisis of 1997–98, which appears to challenge his basic thesis since there was little expectation amongst investors before the crisis of non-constitutional leadership change in East Asian states.

This book delivers on its promise to offer a rigorous assessment of the effects of globalization across states and regions. Although its findings do not resolve the debate in favour of one or the other camp, the authors' findings confirm that globalization's effects are mixed, and highly contingent on local conditions. Nevertheless, it is also clear that further research is needed to gain deeper insights into what these conditions are, a point that all the authors acknowledge. Detailed, empirical case studies employing qualitative political science research methods can offer much in this regard as a supplement to the book's quantitative methodology based on large-N, cross-national comparisons. Non-quantitative studies should not be rejected as somehow lacking rigour. The editors' intention that the book offers inter-disciplinary analysis is only partly realized because of an over-reliance on the quantitative approach. Moving beyond the book's state-centric focus to ask how globalization impacts on different groups within states, a key topic in globalization studies, would also gain from case-intensive research. Quantitative methods may not be able to fully capture all the complexities of governance that may be significant in explaining how states and societies cope with globalization. The capacity of developing country governments to address the consequences of globalization may depend a great deal on the interaction between domestic political institutions, the underlying norms of governance in a particular society, and state–society relations. Although the authors factor politics into their quantitative analyses using indices for democracy, political stability, electoral competition and leadership change, these provide a first-cut explanation, and raise additional questions. The authors themselves acknowledge the need for further study to especially probe the regional variances evident from their regression analysis.

Despite these limitations, the editors and the authors are to be commended for having produced a set of excellent research studies on a highly contested subject, combining theoretical and methodological rigour with insightful assessments of their findings. They have allowed

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us to take some significant steps forward in our understanding of globalization and its effects.

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***ASEAN's Diplomatic and Security Culture: Origins, Development and Prospects.* By Jurgen Haacke.** London and New York: Routledge Curzon, 2003. 198 pp.

Of late, it has become fashionable to dismiss ASEAN and its core normative and behavioural framework known as the ASEAN Way. Scholars who once recognized and praised ASEAN's past efforts in diffusing inter-state tensions and acknowledged it as a respected regional grouping have now turned their guns against what they see as a "sunset" organization, a house divided against itself, or even a dysfunctional entity unwilling and unable to change its ways to cope with the many new challenges that ASEAN members states and the region as a whole face.

Jurgen Haacke's *ASEAN's Diplomatic and Security Culture* is an important new contribution to the literature on Southeast Asian regionalism set in the context of the growing debate on ASEAN's accomplishments and limitations as a framework for regional order-building. The book's main achievement is its dispassionate, detailed and systematic analysis of the "ASEAN Way", defined chiefly in terms of the doctrine of non-interference in the internal affairs of its members. Haacke recognizes ASEAN's past contribution, but spares no effort in identifying and elaborating on its present failures in coping with the pressures of a globalized world. His explanation of ASEAN's weaknesses in addressing new challenges focuses heavily on ASEAN's resistance to allow its norm of non-interference to "evolve". In short, this book is to a large extent about how sovereignty and non-interference hold the key to understanding ASEAN's successes and limitations.

As the extensive bibliography attests, the book is well-researched. The analysis maintains a relentlessly serious academic tone. This is to be expected, as the book grew out of a PhD dissertation at the London School of Economics. The late Michael Leifer served as an inspiration

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for the book, although Haacke's reading of the ASEAN Way is somewhat more optimistic than Leifer's, especially towards the last decade or so of Leifer's illustrious career. Such differences in thinking and approach can only be regarded as healthy and creative.

The book is divided into eight chapters, in addition to an introduction and a conclusion. The introduction contains a brief (two and half pages) discussion of the theoretical underpinnings of the book. The author situates himself within the constructivist approach to international relations, which regards "a diplomatic and security culture as the outcome a process of mutual recognition, possibly through a process of reconciliation or accommodation" (p.12). This sociological understanding offers a clear pathway to his view of the ASEAN Way as the dynamic product of an evolving process of socialization, rather than as a by-product of material power constraints (such as US military dominance or the balance of power) or material relationships (such as economic interdependence) alone.

Chapter 1 explores, in general terms, the background of the ASEAN Way, appropriately traced to a quest for respect and sovereignty. Chapter 2 more specifically focuses on the post-war imperatives of conflict management and reconciliation (e.g., between Indonesia and Malaysia or Malaysia and the Philippines) as the underlying basis for the ASEAN Way. In Chapter 3, the author turns his attention to ASEAN's efforts to develop a framework for managing its extra-mural relations through the Zone of Peace, Freedom and Neutrality (ZOPFAN) concept and the ASEAN Regional Forum, although even these were geared more towards upholding non-interference rather than providing ASEAN with usable tools for managing its relations with external powers. This is followed by an examination of how the ASEAN Way fared in dealing with the Cambodia conflict in Chapter 4. The next two chapters deal with ASEAN's relations with external powers, first the United States and then China. Chapter 7 examines ASEAN's attempts at reform: more specifically represented in the proposal for a "flexible engagement" approach to transnational challenges (such as the regional currency crisis and the haze) made by the then Thai Foreign Minister Surin Pitsuwan. This chapter vividly describes how the contestations over this bold attempt to dilute the non-interference norm led to the compromise formula, termed "enhanced interaction." Chapter 8 looks at how ASEAN has fared in employing this approach to subsequent challenges, notably in developing a financial surveillance process, the situation in Myanmar, the crisis and bloodshed in East Timor, the creation of an ASEAN Troika and in dealing with the Thailand-Myanmar conflicts in 2001.

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Much of the recent criticism of ASEAN "as the most successful regional organization in the developing world" (p. 8) comes without being informed by comparative analysis which places ASEAN's record against that of other regional groups such as the South Asian Association for Regional Cooperation, the Gulf Cooperation Council or even larger organizations such as the Organization of African Unity (recently renamed the African Union). Although Haacke himself limits his study to ASEAN alone, he is careful to recognize both ASEAN's limitations as well as achievements.

A regional grouping is a dynamic entity which must change its ways in order to cope with emerging and often unexpected challenges. ASEAN's founders could not have foreseen the extent to which globalization would overtake their much simpler world of strategic bipolarity and economic nationalism. With colonial dominance and superpower interventionism at the heart of their security concerns, ASEAN's founders naturally turned to non-interference. Third World leaders such as Jawaharlal Nehru once regarded non-interference as a moral doctrine, because it offered them a shield against neo-colonialism and superpower interventionism. Hence, the sources of ASEAN's past strength remains at the heart of its present limitations, although it may be more fashionable in today's world to use the present to dismiss the past.

Haacke's analysis of ASEAN focuses heavily on the contestation between the forces for the status quo and the forces for reform (non-interference versus flexible engagement). As such, he pays less attention, especially in his conceptual reflections, to another important contestation that shapes the perception of ASEAN's contribution: between its aspiration for regional autonomy and the material constraints of a regional order shaped by the balance of power dynamics. As he explains in a footnote (p. 234, fn.9), his analysis of the ASEAN Way focuses on its role as a "framework for mediating estrangement and insecurity and does not include as key elements the norms of 'regional autonomy', 'collective self-reliance' and 'no ASEAN military pact'—norms which would be more central to interpreting and explaining ASEAN in terms of the larger balance of power dynamics (which incidentally is the subject of an important forthcoming study of ASEAN by Ralf Emmers).

Given that one of the central debates about Asian regional order focuses on how the balance of power, materially conceived, constrains ASEAN and its offshoot, the ASEAN Regional Forum, it would have been interesting to see what Haacke has to say about this. He does address these issues empirically in two chapters dealing with the United States and China (Chapters 4 and 5). But, as noted, even his

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discussion of ZOPFAN and the ARF (Chapter 3) is bound by a framework that focuses on their contribution in institutionalizing the non-interference doctrine, rather than as instruments for managing extra-mural pressures. An analysis of the latter would be especially important in engaging realism and neo-realism in the analysis of Southeast Asia's regional order, especially since realism has been, remains, and is likely to remain (in fact it has enjoyed a resurgence in the wake of the Asian economic crisis) the dominant perspective on the study of Asian security in general and Southeast Asian regional order in particular. But the author compensates for his decision to be less comprehensive in his definition of the ASEAN Way and the scope of his investigation by providing a more in-depth and extensive discussion of the conflict between non-interference and its alternatives.

Although Haacke's analysis is conducted with objectivity and accuracy, there are areas of conceptual tension. For example, the author recognizes that "the participation of ASEAN members in an intervention force [in East Timor] clearly marked a significant moment in the evolution of the 'ASEAN Way'" (p. 201), despite the fact that only some ASEAN members participated in their individual capacity. Such thinking suggests Haacke's sophisticated understanding of multilateralism (that it can subsume concerted action by a few actors, rather than a rigid adherence to unanimity). But in coping with bilateral disputes such as the Thai-Myanmar "spat" in 2001, ASEAN's diplomatic and security culture was a clear barrier: "the multiple resort to force marked the first major violations of the most significant norm of ASEAN's diplomatic and security culture—the non use of force" (p. 210). Given the book's consistent emphasis on non-interference as the core norm of ASEAN, one might say that the prior salience of non-interference is what might have prevented an ASEAN role in the management of the Thai-Myanmar dispute. But a larger question is whether one should regard these two events, especially the East Timor intervention (which was undertaken at the invitation of the Indonesian government of the day and was therefore fully consistent with the norms of non-interference) as a vindication or violation (albeit in a limited evolutionary manner) of ASEAN's diplomatic and security culture? Herein lies a major dilemma facing ASEAN and the analysts of its diplomatic and security culture.

A central paradox of any normative order is the contradiction between path dependence and efficacy. Its very success often contains the seeds of its own decline. The success of norms is defined in terms of their "stickiness" or ability to endure in the face of challenges. But once norms take hold, they are expected to remain in place and adhered to. Just as socio-cultural habits die hard, change is resisted because of

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concerns that it will undermine an existing identity. Hence, *ASEAN's Diplomatic and Security Culture* is both a cause for celebration and for despair. The "stickiness" of the ASEAN Way is in some measures a testament to its impact and confirms the identity of its members as sovereign-bound political entities. Yet, consistency and continuity are not guarantees of efficiency and credibility when dealing with new and unexpected turbulence. When faced with change, all rational actors face a dilemma: too much change is just as bad as too little. The key is to strike a balance between the neccessity to find new pathways to deal with new challenges without significantly disrupting the foundational principles of an organization.

ASEAN's problems lie in its failure to date to find such balance and to err too much on the side of the status quo. A core strength of this book is the way it captures these dilemmas clearly and historically. Haacke's analysis, including his critique of ASEAN, is credible because it is advanced without degenerating into polemics and is backed by careful and detailed research. This book's conceptualization of the ASEAN Way as something of a "work in progress" is interesting, affirming that the notion of a "diplomatic and security culture" is not impervious to redefinition and change. It attests to the core constructivist claim that norms and culture are not primordial and unchanging constructs, but are a set of beliefs and practices which are made and remade through socialization and institutional politics.

What are the prospects for the ASEAN Way? Haacke concludes that the ASEAN Way has served its purpose, but it is time for evolution and change. His own feeling is that ASEAN is likely to adapt. While "some features of the 'ASEAN Way' will probably endure for some time", (p. 232) "it is reasonable to expect that the 'ASEAN Way' will evolve further in the medium term as the process of norm-rationalization within the Association and the ARF will continue. Should a relevant situation arise, ASEAN governments might, for example, shift from the mere limited conceptual endorsement of new intramural instruments, say in the field of preventive diplomacy, to their practical application". (p. 233)

Those skeptical of the ASEAN Way may dispute Haacke's judgement and its underlying optimism about ASEAN's ability to change. To this reviewer, the book has made a valuable contribution by identifying the conditions, such as the premium on state sovereignty, which led to the origins and evolution of the ASEAN Way and explains its resilience today. Changes in the underlying conditions could remake the ASEAN Way. Haacke will be around to tell us how his thesis comes through in the years to come. In the meantime, the academic community specializing in Southeast Asia's international relations should welcome

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the arrival of a new specialist who, if this book is any indication, has the clear potential to make a significant contribution to the field.

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***Power in a Philippine City*. By Takeshi Kawanaka**. Chiba, Japan: Institute of Developing Economies, Japan External Trade Organization, 2002. 118pp.

Scholarship on local politics in the Philippines has been dominated for a long time by society-centred perspectives which identify cultural norms and social structures as important variables in explaining the nature of power and power relations in Philippine localities. While these studies remain influential, there has also been a considerable shift in attention within the last decade, and a number of significant works have emerged that examine the role of the state and its institutions in explaining the dynamics of local politics. Kawanaka's recent book contributes to this latter perspective with his case study of local power mechanisms in Naga City.

Kawanaka takes issue with sociocultural perspectives which usually identify kinship patterns, social relationships and traditional values that reinforce the patron-client system as crucial in explaining the continuing dominance of political dynasties in the Philippines. The rise of the political machine, especially after democratic restoration in 1986, has been explained as a transformation in political relationships due to transformations in society and the economy. As Kawanaka notes, however, this perspective "still considers that society defines the patterns of local politics" (p. 10). Such arguments are not surprising considering the influence of the strong society–weak state framework in political research in developing countries.

Statist arguments have sought to present an alternative explanation of how local power is obtained and maintained. In particular, the role of the state is emphasized by identifying two important realities neglected by sociocultural perspectives: competition among political leaders in gaining access to the state's resources, and the salience of institutions that define how the state's resources are allocated. Thus, monopoly in access to state resources, and the institutional capacity to distribute these resources, become important factors in maintaining local power.

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In the case study of Naga, Kawanaka devotes an entire chapter (Chapter 3) to describing the city's political history, and demonstrates that specific political leaders dominated for a certain period due to access to the state's resources. Subsequent political leaders emerged when this access, especially to national power holders, was cut and transferred to political opponents.

Kawanaka, however, differentiates his study from others which adopt the statist perspective. Other recent scholars, in examining how the state shapes local politics, utilized case studies of local "strongmen", "warlords" and "bosses," and focused on the use of illegal economic activities and political violence as mechanisms for maintaining local power and control. In this light, Kawanaka's choice of Naga City is refreshing, given the city's impressive performance since the much-awarded Mayor Jesse Robredo took over in 1988. The author explains the rationale behind his choice in a footnote as "to present a different type of local politician from that of the warlord type, and to refute the image of Philippine local politics as filled with violence and illegal activities" (p. 19). There is thus an unarticulated and yet important question that informs the research: how do political leaders who emphasize good governance manage to maintain local power? Set beside the failure of other "reformist" politicians to maintain power and sustain their governance initiatives, an examination of the success of Naga City, and in particular Mayor Robredo, provides a key to understanding the nature of Philippine local politics.

Like other recent works, the current study begins with identifying state resources and institutions that impact on Philippine local politics. Local political leaders compete for public office because it provides access to controlling important state resources such as finance, credit allocation, regulatory power, employment in the public sector, and physical coercive power through the police. In turn, important state institutions that determine how these resources may be allocated and utilized include the electoral system, the framework of central-local relations, and the spoils system in civil service appointments.

Against this institutional backdrop, the research in Naga City finds that monopoly over the control of state resources and the effective distribution of these resources are the important factors in maintaining local power, rather than cultural values, patron-client relationships and personal wealth, as argued by the sociocultural perspective. Here, the author asserts that the socioeconomic condition in a locality is an important contextual variable, since the manner in which state resources are channeled to meet the interests of local citizens differs across socioeconomic classes. In particular, Kawanaka argues that the political machine emerges as an important "strategic choice of the political elite,

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especially in the urbanized socioeconomic situation...for controlling both resources and grassroots leaders" (p. 102).

Kawanaka devotes much of his attention to describing Robredo's ascent to power in Naga and his efforts in building an effective political machine to maintain grassroots support in the city. Through a network of formal grassroots organizations that maintain close links with the mayor's office, Robredo was able to systematically distribute benefits to urban poor residents, punish disloyal leaders and members through denial of such benefits, mobilize support during elections, and improve access to national-level resources controlled by national officials who recognize the importance of the political machine in winning elections.

Other recent studies point toward the same important roles of political machines, which emerge in the absence of cohesive political parties and because the institutional setting provides the mayor with much discretion in distributing city government resources. What is significant in Kawanaka's study, and in the case of Naga City, is that the use of political machines does not result in the systematic plunder of state resources akin to those who have depicted Philippine local politics as characteristic of a "predatory state". Indeed, good governance can be understood as part of the strategy for Robredo's continued stay in power. While the majority of the urban poor are concerned about divisible benefits (through housing, livelihood and other such programmes), Kawanaka asserts that the larger segment of the middle class continues to support Robredo because his good performance results in important indivisible benefits (e.g., improved infrastructure). Consequently, good performance as evidenced through minimization of corruption in the city government and the growth of the city's economy also results in the expansion of resources available for distribution through the political machine.

From these arguments, one can raise a number of significant questions, which are, admittedly, outside the author's stated scope of research. First, how do local political leaders affect the formation of important political institutions? If the state and its institutions are crucial explanatory variables for understanding the nature of local power, then it is also important to understand how these institutions are formed. Kawanaka describes the importance of the 1991 Local Government Code in providing the framework for central-local relations in the country. But how have periodic changes in central-local relations affected the nature of local power, and why have these changes occurred?

Second, in the long run, do good governance initiatives affect the salience of the political machine? In particular, the introduction of mechanisms for participatory governance, such as those currently in Naga City, provides an opening for more pluralistic politics. Does this

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significantly reduce the capacity of the political machine in monopolizing control and distribution of resources?

And third, how similar would the findings be when the theoretical approach is employed in a more rural setting? The author's use of a single case study provides rich empirical detail on the nature of politics in Naga City. However, further research that attempts to answer the third question may yield substantial insights on the salience of state institutions as explanatory variables that are independent of the process of urbanization.

This short but rich book is thus significant not only because of the attempt to explain the parallel existence of good governance and political machines in local politics, but also because it provokes additional questions that are important in more accurately understanding the nature of local politics in the Philippines.

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***Globalization and Democratization in Asia: The Construction of Identity*. Edited by Catarina Kinnvall and Kristina Jönsson.** London & New York: Routledge, 2002. 276pp.

What is the relationship between globalization and democracy? For the most part the chapters in this book are concerned to explore the argument that the processes entailed in the economic, financial and cultural manifestations of globalization cannot be assumed necessarily to facilitate democratization. Historical and cultural factors can play the role of independent variables, and in Asia especially there can be observed a wide range of political and social outcomes even in ostensibly democratized states.

In reviewing the causes and consequences of the Asian financial crisis, Lowell Dittmer argues the case that the crisis marks the end of "Asian exceptionalism", global market forces now having "gained the upper hand" (p. 36). But this is not to assume that globalization will henceforth clear the way for a more thorough democratization. In reviewing the Indian case, Aswini Ray argues that local democracy has often been overwhelmed by such forces, and in the six chapters that follow, which are devoted specifically to the impact of globalization on particular Asian democracies, this message is

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reinforced. In South Korea, Geir Helgesen finds democratic forms to co-exist with distinctive (perhaps pre-democratic) social norms, and of Indonesia Richard Robison argues that the formal democratization of 1999 has not yet consolidated democratic practices, there being a struggle within the forces of democracy between those who would have the state exercise regulatory powers as opposed to those who would seek to mobilize its institutions in pursuit of "predatory" policies redolent of the dictatorial past.

The emergence of non-government and "non-profit" organizations in Japan, focused especially on security, environmental and gender issues and facilitated, once again, by the forces of globalization, marks a somewhat contradictory development. Hugo Dobson argues that this phenomenon has led to increased demands for government transparency and accountability, though the definitive response of the state is still unclear. By contrast, Anders Uhlin, in reviewing the experience of Malaysia and Thailand, cautions against the assumption that the empowering of civil society as a result of the operation of globalizing forces is necessarily a democratic development. What can be safely concluded, however, is that globalization opens a new space for political contestation, though what outcome that contest will have depends to a large extent on the nature of the political system in question. Similarly Bishnu Mohapatra, writing on India, observes that the emergence of the discourse of "minority rights" has undermined, to some extent, the claims of citizenship in the interests of a sometimes narrow exceptionalism.

This case study introduces the second thesis of this collection, namely that "identity" comprises a major item if not the "missing link" in the study of the link between globalization and democracy. There can be no doubt that the forces and technologies associated with globalization have helped to stimulate the emergence of local identities in various Asian societies, as four of the chapters (devoted respectively to India, Malaysia, China and Indonesia) demonstrate. However, the question of whether these new assertions of identity can be harmonized within their existing national political contexts would seem to depend on the nature of the states in question. The transnational "Chinese" networks identified by Shamsul A.B. would seem to gain their impetus, in the Malaysian case, from the dominance within the Malaysian political system of a particular discourse of ethnicity (itself facilitated in part by globalization) which limits the role of "non-Malay" citizens. Nevertheless, as the Malaysian case also illustrates, even such a relatively authoritarian system has been able to respond more positively to the rise of environmentalist groups stimulated by the same globalizing forces.

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The importance of the nature of the state is underlined by Vivienne Shue. In her analysis of the Beijing government's response to the Falun Gong movement, she illustrates "how the state has struggled to adjust its course so as to steer between the paradigmatic extremes of modernism, on the one hand—which it finds ineradicably contaminated by Western ideals and values—and of nativism, on the other hand—which it finds ineradicably contaminated by popular mysticism and magic" (p. 225). The fact that the Chinese government possesses, even after more than 20 years of reform and marketization, such latitude as to determine which belief systems its citizens may or may not hold is the crucial factor in this episode.

What is the conclusion of this study? For some of the contributors, the connection between globalization and democracy is so qualified, nuanced and contextual that a generalization can hardly be advanced. As one of the editors observes, in her own chapter on Vietnam and Laos, "globalization today reinforces existing processes [derived in those societies respectively from 'the legitimacy of socialist rule' and from 'economic and societal development'], processes partially running parallel to globalization, and the outcome of these processes is unpredictable due to the ambivalent effects of globalization. Globalization may lead to democratization, but the result may also be a shift in power to groups in society that are not interested in democratic reforms" (pp. 127–8). It is also pertinent to observe that the subject of this book is a fast moving target. To take the Korean case, for example, the election of Roh Moo Hyun as president in 2002 has led to the displacement of many of the conventions, with their basis in "cultural" notions of hierarchy and authority, which characterized Korean politics to that point. Roh was elected as a result of his strong following amongst younger voters, and his initial cabinet and other appointments have set aside seniority and gender criteria, much to the consternation of the national establishment. Even the patriarchy noted by Helgesen as a major and enduring social force is now subject to more vigorous contestation. And many of these changes can be traced to the impact, in various ways, of globalization. But there is no disputing the judgment that this book makes a useful contribution to advancing the thesis that the shape of democracies in Asia, as elsewhere, bears the powerful imprint of global forces.

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Contemporary Southeast Asia 25, no. 3 (2003): 343–62 ISSN 0219-797X

ASEAN, the Declaration on Conduct, and the South China Sea

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Norms of behaviour may play a very important role in resolving the South China Sea dispute, and in reducing the potential for conflict. ASEAN and China signed a declaration on conduct for the South China Sea in November 2002, which was the first time that China had accepted a multilateral agreement over the issue. ASEAN had attempted to obtain China's endorsement of international norms of behaviour over the issue since 1992. While China regarded the South China Sea as "lost territories" that were to be restored to the mainland, there was little response. China's attitude towards the area changed after the Taiwan crisis of 1995–96 removed from power the main proponents of the recovery of lost territories theme. Moreover, when the Philippines involved the U.S. through the Visiting Forces Agreement of 1998, China realized the value of norms of behaviour in terms of constraining external powers. The article argues that, in a situation where a dominant power has a clear advantage over weaker states, a balance of power is required as a prerequisite for the negotiation of norms of behaviour. Without that balance there would be no incentive for the dominant power to accept constraining norms of behaviour. Norms are a product of a balance of power which in this case was provided by the American role.

Introduction

On 4 November 2002 ASEAN signed a declaration on conduct in the South China Sea with China, which within ASEAN was regarded as a

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milestone. China had previously insisted on bilateral negotiations with the claimant states and had avoided multilateralism. This declaration indicated a change in China's approach towards the dispute and vindication of ASEAN's efforts to engage China in dialogue over the issue. The declaration fell short of what ASEAN had been seeking, which was a commitment to a code of conduct but, when seen against the background of prior developments, it was symptomatic of a trend towards adoption of norms in the regulation of the dispute. This article will examine the development of the South China Sea issue in two phases; in the first phase from 1987–98, China's intentions were framed in terms of the recovery of "lost territories" and exclusive sovereignty over the area. In the second phase from 1999 to the present, China revealed greater interest in the regulation of the dispute and became more receptive to the negotiation of norms of behaviour with ASEAN. The article will identify the shift in China's approach towards the dispute in terms of the factors influencing its receptivity to norms. It will examine the relationship between norms and foreign policy and will seek an answer to the question as to why states in China's dominant position become receptive to norms.

The Importance of Norms

Norms can be understood as standards or patterns of expected behaviour in particular circumstances and indicate commonly accepted preferences. Norms and rules have been used interchangeably as their meanings overlap but a rule may be regarded as a subset of a norm and an explicit statement of a preference when behaviour becomes obligatory or compulsory. Norms are required before rules and regulations are formulated and indicate areas of common understanding but a rule makes that understanding explicit, clear and precise. Not all norms become explicit and signify expected behaviour in relation to circumstances or conditions where rules may be premature or inappropriate. Kratochwil stressed that norms serve as guides to action, and are "problem solving devices" for ordering interaction and behaviour.[1] The value of norms lies in the benefit of predictability and the constraint of unacceptable or potentially destructive action from which all would suffer.

Competition over scarce resources in international politics may result in a struggle for power and the resort to mutually destabilizing efforts to gain supremacy over others. Norms can reduce the bargaining costs of competition when they become excessive and may express common preferences for cooperation. Predictability, ordered behaviour, and the restraint of harmful action are in the interest of international

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actors as part of the taming of the Hobbesian state of nature. Norms are derived from the mutual expectations of the actors and offer a means to restrain behaviour to maintain the competition between them within certain tolerable parameters. Their acceptance may result in the exclusion of certain destabilizing methods of individual goal fulfilment which may rely upon force or threat. In this sense, norms may influence the conduct of foreign policy by limiting the choice of means to those considered acceptable, and which would maintain the reciprocity of ordered behaviour from which all benefit. Common norms are invoked and are often taken for granted in the joint development of scarce objects or resources and are inherent in any cooperative endeavour. An implicit or explicit agreement on norms of behaviour is the first step in the negotiation of international regimes regulating specific issue areas for which they serve as a foundation. Norms also will allow parties to negotiate their grievances and search for mutually acceptable solutions on the basis of common understanding, without the resort to destructive unilateral solutions.[2]

Norms are a product of an understanding that unrestrained competition in a state of nature may increase the costs of obtaining access to scarce resources. Small states are the beneficiaries of norms in that an ordered environment will protect their rights of access against stronger powers, which may otherwise be disposed towards the use of force. Why should dominant states abide by norms when they may obtain possession of contested resources by unilateral action? Norms may work to the benefit of dominant states as well, when unilateral action may raise the diplomatic and economic costs associated with the acquisition of those resources to a prohibitive level. When dominant states require the diplomatic and economic support of smaller states over other issues, they become more careful about alienating them. When smaller states are able to involve the international community by portraying the issue as one affecting regional or global stability, unilateral action becomes excessively risky. When dominant states themselves are dependent upon the international community for economic benefits unilateral action becomes irrational. Idealists imagine that the propagation of norms alone would result in positive changes in the behaviour of powerful states through an appeal to the consciences of those responsible for foreign policy. The reality is usually otherwise. The realization of the benefits of norms for these states comes as a product of the frustration of the desire for unilateral action, when periodic attempts to resort to unilateral solutions are perceived to have unacceptable consequences. Dominant states may wrestle with the temptation to impose their solutions over particular issues but once the destabilizing results of their actions are understood, they may realize

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that the adoption of norms of behaviour will bring a desired stability, that otherwise would be absent.

China, the "Lost Territories", and Exclusive Sovereignty

The South China Sea is an area of competing claims involving China, Vietnam, Malaysia, the Philippines, and Indonesia in which the determination of sovereignty has become important for the ability to exploit oil, gas, and fishing resources.[3] From the realist perspective China could be expected to claim great power rights over the area to which the smaller ASEAN states would be compelled to subordinate themselves. As Samuel Huntington once explained, China's intention was to establish itself as the major power in East Asia, and to legitimize its control over the South China Sea.[4] China's claims to the area were initially motivated by the concern to recover the "lost territories" taken from China during its humiliation before the colonial powers in the 19th century. Within China, the idea of a *Lebensraum* or survival space was also raised, according to which China would seek living space for its population, as well as the energy and fish resources of the South China Sea.[5] Behind these claims was the figure of Liu Huaqing who had significant influence on the development of PLA-Naval strategic doctrine in the 1970s and 1980s. Appointed naval commander in 1982, Liu highlighted China's claims to the South China Sea based on the "lost territories" theme which he used to justify larger budgets and to define a strategic mission for the navy, requiring an ocean-going capability.[6] In May 1987 China sent patrols and survey crews to the South China Sea and on 14 March 1988 Chinese patrols clashed with Vietnamese vessels at Johnson Reef, after which seven reefs were occupied.[7] In March 1989 China's navy formed a South China Sea frontline headquarters and deputy commander Zhang Xusen announced the shift to offshore defence to protect China's territorial sovereignty and ocean rights. An expansion of naval capability was required to protect the four major seas and China's continental shelf, and to fight any localized war against China on the high seas.[8]

Subsequent statements from Chinese naval authorities revealed assertive support for naval expansion. Zhang Xusen claimed that China would develop advanced technology and would adjust its strategy to protect its claims in the South China Sea.[9] Vice Admiral Zhang Lianzhing predicted that China's navy would be strengthened to boost combat readiness and protect China's territorial waters. He opined that the struggle for ocean rights would intensify in the future as competition for oil deposits and fishing rights would become more severe.[10] In 1990 it was revealed that China had constructed a 2.6 km

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airstrip on Woody Island in the Paracels which would allow it to deploy SU 27s as air cover for its navy. Built in 1978 it would reduce the air distance to the Spratly Islands by half to 600 km allowing the SU 27s to fly there without refuelling.[11] China's naval activity in the area increased and regular patrols and naval manoeuvres were observed. Naval modernization was initiated in the early 1990s, which resulted in the introduction of new naval vessels such as the *Luhu*-class guided missile destroyer, and the *Jiangwei*-class guided missile frigate. In the early 1990s China was interested in purchasing an ex-Soviet aircraft carrier from the Ukraine or Russia and the interest in a carrier to provide air cover for distant naval operations remains.[12] There were also constant reports that China had acquired air refuelling technology from Iran or Israel.[13]

In this context China's National People's Congress on 25 February 1992 passed the controversial territorial law, which as Fu Ying (Deputy Director of the Chinese Foreign Ministry's Asia department) explained had been long in preparation and was intended to support China's position on the United Nation's Convention on the Law of the Sea (UNCLOS).[14] Article 2 of the law converted the South China Sea area into China's internal waters; naval vessels were to obtain Beijing's permission before proceeding through the South China Sea; submarines were to surface to fly their flags and aircraft were to obtain permission for overflight rights. Article 8 permits Beijing to adopt all necessary measures to prevent and stop the harmful passage of vessels though its territorial waters: under Article 10, Beijing will be allowed to order the immediate eviction of foreign naval vessels from the area while under Article 14 Beijing could authorize its navy to engage in hot pursuit of foreign naval vessels to the high seas.[15] U.S. Assistant Defence Secretary James Lilley declared that it was just an affirmation of China's position and that nothing new was intended.[16] Nonetheless, the enacting of China's claim into law cast it in concrete and made compromise and negotiation more difficult. Malaysia's then Foreign Minister, Abdullah Badawi, thought that the law would hamper efforts to negotiate a solution, the general concern being that China would become more inflexible as a consequence.[17]

Passage of the law stimulated alarm within ASEAN and confirmed impressions of China's aggressive intentions. Malaysia's Armed Forces Commander, General Tan Sri Yaacob Zain publicly warned that Malaysia would defend its claim to the Spratlys "even though we do not have the capability to go to war with China."[18] Philippine Armed Forces Chief of Staff Lisandro Abadia declared that the claimed islands were "vital to the nation," and that the military would develop a credible defence force capable of safeguarding Palawan and the Philippine claim zone

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known as Kalayaan.[19] Indonesian Foreign Minister Ali Alatas declared that the South China Sea would be the next flashpoint in Asia and pressed the Chinese to explain the law.[20] One year later in 1993 Alatas was more pessimistic. Since 1990, he had been presiding over annual workshops on the issue entitled "Managing Potential Conflicts in the South China Sea" with Canadian support. The intention was to pave the way for a resolution of the issue but he had become frustrated with China's lack of response. At the August 1993 workshop held in Surabaya, he claimed that the situation was "potentially explosive" and called for action to avoid conflict.[21] Alatas's concerns were that if significant oil reserves were discovered in the area the current restraints would be swept aside and conflict would be likely, without the regulation of the competing claims well in advance.

China's occupation of Mischief or Panganiban Reef in the Philippine claim area, which was revealed on 9 February 1995, brought new difficulties for ASEAN. Why did China occupy Mischief Reef? Congressman Roilo Golez who subsequently became National Security Adviser under President Gloria Arroyo-Macapagal claimed that China reacted to the Philippine agreement with U.S. energy company Vaalco on 8 May 1994 which gave it a six month permit to collect information about the area. This agreement with an American company demanded recognition of the Philippine claim which China was determined to contest.[22] Other interpretations link the move to Chinese naval collaboration with the Chinese fisheries department to secure fishing resources.[23] China's intrusion into the Philippine claim zone and later activity was described by Philippine Defence Secretary Orlando Mercado as a "creeping invasion", it tested ASEAN cohesion and its willingness to support a member in difficulty.[24] China subsequently strengthened and extended those structures over the next three years and, by January 1999, Philippine Armed Forces Chief of Staff Joselin Nazareno declared that the constructions on Mischief Reef had been completed. Nazareno claimed that their purpose was to act as a staging post for oil exploration in the South China Sea.[25] Other functions included support for local Hainanese fishing activities in the area, which stimulated recurrent clashes with Filipino authorities. Their political function, however, was to challenge the Philippines' claim to the area, exploiting the obvious fact that the Philippines was militarily the weakest of the ASEAN claimants.[26]

The Shift in China's Strategy

China's claim to exclusive sovereignty over the area coexists with the claim to the resources, which was expressed in the proposal for joint

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development.[27] The difference in emphasis was important. If China's claim is based upon exclusive sovereignty then compromise and negotiation are inconceivable and China would await a propitious time to expand its presence in the South China Sea. If the claim is based on resources, compromise would be feasible and a regime could be negotiated to regulate the issue. Both claims have been supported by different agencies, the PLA and the security establishment pressing for the recovery of the "lost territories" and the Ministry of Foreign Affairs (MFA) and the economic ministries basing their claims on access to resources.[28] The "lost territories" theme lost its significance for the Chinese leadership in the 1990s when it clashed with China's desire to expand economic relations with the Asia Pacific region. Both the South China Sea and Taiwan were initially conflated in Liu Huaqing's classification and were regarded as territories whose recovery was an urgent task. When China reacted to Taiwanese President Lee Teng Hui's visit to the U.S. by launching a series of missile firings in 1995 and 1996, the U.S. was provoked to strengthen its support for Taiwan. The U.S. emerged as a major deterrent against Chinese ambitions when the Clinton administration despatched carrier groups to the Taiwan Straits, in December 1995 and then in March 1996.[29] The Taiwan crisis of 1995–96 resulted in the separation of the Taiwan issue from the South China Sea as Jiang Zemin's civilian leadership wrested control of Taiwan policy from the PLA hardliners who had pressed for the missile firings. Liu Huaqing, who had done much to promote the South China Sea claim, had his influence curbed over the Taiwan issue when Jiang Zemin expanded the number of deputy chairmen of the Central Military Commission (CMC) to include his allies, Chi Haotian and Zhang Wannian, in September 1995.[30] Liu was retired from the CMC in September 1997. Subsequently the South China Sea issue was no longer cast in terms of "lost territory" or survival space, and the significance of the area's oil and fishing resources became observably more prominent in Chinese attitudes. In 1993 China became a net oil importer and the securing of oil supplies became important for China's continued economic growth.[31]

China has since become more receptive to ASEAN proposals for regulating the issue on the basis of accepted norms. The Chinese have argued that it was always their intention to follow accepted norms in the resolution of the issue in the way spelled out when Malaysia's Najib visited Beijing in August 1992. Premier Li Peng made the offer of joint development of the resources and called for closer economic and defence relations with Malaysia and he gave assurances that China had no intention of expanding south.[32] Upon his return to Kuala Lumpur, Najib declared that there was a "tremendous desire by the Chinese

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government to establish closer military cooperation" with Malaysia.[33] When Philippine president Ramos visited Beijing in April 1993, there was a similar offer for the joint development of the area's resources.[34] Nonetheless, when opportunities arose to follow through on these proposals, the Chinese baulked. After the promulgation of the Chinese territorial law, ASEAN foreign ministers met to consider the regulation of the issue based on the common acceptance of norms in the ASEAN Declaration of the South China Sea dated 22 July 1992. Point 4 of the Declaration indicated ASEAN's desire to negotiate a code of conduct over the issue.[35] China's response to the Declaration at that stage was equivocal. Foreign Minister Qian Qichen who attended the meeting agreed that a peaceful settlement of the dispute was required and appended a separate Chinese attachment stating that negotiations for joint development may begin "when the conditions are ripe."[36] It was never specified when conditions would be ripe.

After the Mischief Reef incident ASEAN thinking converged on the idea of the code of conduct as a means to manage relations with China and to avoid similar occupations by the Chinese. This approach was shaped by 2nd track diplomatic interaction within ASEAN which emphasized common norm-building activity with China in the form of an undertaking not to occupy new islands, and not to resort to force to resolve existing disputes. The expectation was that dialogue would effectively communicate to the Chinese the probable consequences of the further occupation of islands, in which case the Chinese side would become aware of the costs of their actions in terms of the loss of friendly relations with the ASEAN countries. The negotiation of mutually acceptable norms in a code of conduct would make their relationship more predictable and ordered. It was to involve an agreement on the accepted rules of behaviour to avert conflict; the negotiation of a phased process of cooperation; and then an agreement on a zone of cooperation including the creation of multilateral development zones in the South China Sea.[37] The code of conduct was raised by the Filipinos with the Chinese during bilateral foreign ministry negotiations conducted at undersecretary level in Manila in August 1995. The joint statement from these negotiations revealed that both sides had agreed to abide by the principles of a code of conduct which included the peaceful settlement of disputes, the adoption of a "gradual process of cooperation" which would led to bilateral negotiations, and recognition of the principles of international law and the Law of the Sea.[38]

The code of conduct had two purposes. The first was to bring unity to ASEAN in view of the divisions that existed between claimants and non-claimants, such as Thailand and Singapore, who did think that the issue was worth damaging relations with China. There was also a major

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division between the Philippines and Malaysia whose claims in the area overlapped. The Malaysians in any case regarding the Mischief Reef incident as a Filipino and not an ASEAN problem. The second purpose was to oblige China to apply those principles of cooperative behaviour which it had consistently proclaimed as central to its relations with the external world. China had claimed that it would follow the five principles of peaceful coexistence in its foreign policy, that it would not strive for hegemony on the basis that a stable external environment was required for its economic growth. The ASEAN approach was to adopt those principles in a code of behaviour related specifically to the South China Sea. In this strategy there was the risk that China's actual behaviour would deviate significantly from its declared principles, as was the case with the Mischief Reef incident, which violated the 1992 ASEAN declaration on the South China Sea. If ASEAN could increase its bargaining power through force modernization and, if necessary, military cooperation with external powers, the costs for China of allowing a discrepancy to emerge between principle and behaviour would be increased significantly. In many respects, negotiations for the code of conduct were to serve like a computer simulation exercise in which the players communicated to each other the negative scenarios relating to proposed actions. If the negative consequences of further expansion in the area could be communicated to China in this exercise, if through constant reiteration it could be impressed upon the Chinese leadership that the alternative to the code was a dangerous unpredictability, they may become more inclined to abide by its principles.

Within ASEAN there were two approaches towards China to convince it of the need to observe the principles of the code. The first was the bandwagon approach adopted by Malaysia which was intended to obligate the Chinese through declarations of friendship. Malaysian officials reacted negatively to China's territorial law in 1992 and were inclined to view China as a threat. This attitude changed after Mahathir's visit to Beijing in June 1993 when friendship with China was proclaimed. The circumstances of the visit were related to the Second UN World Conference on Human Rights held in the same month, during which China and Malaysia forged an understanding of "Asian values" to oppose the West.[39] Mahathir understood that China required ASEAN as an ally against the West over this issue and could be obligated to observe the proclaimed principles of its foreign policy while that need remained. Malaysia then supported China by accepting bilateral rather then multilateral negotiations over the issue; it also rejected Indonesia's "doughnut" proposal to which the Chinese were opposed.[40] Nonetheless, after the Mischief Reef incident, the Malaysians strengthened their

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capability to defend their claims in the area by increasing the number of vessels in their South China Sea Command at Labuan and a second squadron of 6 patrol vessels was added to the existing 14.[41] The Malaysia-China understanding was made explicit during Foreign Minister Syed Hamid Albar's visit to Beijing in May 1999, when a joint statement was negotiated in which Malaysia adopted the Chinese position and called for bilateral rather than multilateral negotiations.[42] Malaysia then occupied another two reefs bringing its total up to five, thereby provoking the Philippine Foreign Ministry to accuse it of breaking ranks with ASEAN and colluding with China.[43] Mahathir publicly emphasized that the U.S. should be excluded and that the issue should be settled by the claimants themselves, echoing the Chinese position. Syed Hamid Albar opposed the raising of the issue at the ASEAN Annual Ministerial Meeting (AMM) and the ASEAN Regional Forum (ARF), agreeing with China that the issue should not be discussed at a multilateral forum.[44]

The second approach was adopted by the Philippines which after the Mischief Reef incident had attempted without success to invoke ASEAN support against China. The Philippines had attempted to raise the Mischief Reef occupation issue at the ARF Senior Officials Meeting (SOM) in May 1995 but the Chinese objected.[45] For China the involvement of ARF, which included the U.S. and Japan, signified the unacceptable internationalization of the issue and would entail the consequent weakening of China's bargaining position. At the ASEAN AMM held in Brunei on 30 July 1995, Qian Qichen insisted that China was willing to settle dispute with neighbours according to UNCLOS bilaterally, but without the United States. The Philippines sought U.S. support and on 10 February 1998 signed a Visiting Forces Agreement (VFA), which would allow American forces to use Philippine facilities and to train Philippine forces. The issue was most troubling for the country which in 1992 had the American naval presence in Subic Bay removed. The same Philippine Senate which had voted against retaining the Americans in Subic Bay overwhelmingly voted on 26 May 1999 to ratify the VFA by a margin of 18 to 5.[46] Senators who previously saw the U.S. naval presence as an affront to national dignity now regarded the VFA as a deterrent against China, which they regarded as an expansionist power. How would VFA help the Philippines? Dennis Blair, the Commander in Chief, U.S. Pacific Command (CINCPAC) said that the VFA could not serve as the basis of the U.S. commitment to the Philippines which was the Mutual Defence Treaty (MDT) of August 1951, but it normalized military relations with the Philippines which had been strained since the loss of Subic Bay.[47] U.S. Ambassador Thomas Hubbard declared that that the U.S. would defend the

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Philippines should it be attacked in the South China Sea on the basis that the U.S. commitment under the MDT extended to the Pacific area.[48] In Manila there is much scepticism as to whether this claim can be legally sustained given that the MDT had been previously limited to the metropolitan area of the Philippines, without the claim area which was regarded as disputed territory. Nonetheless, as relations with the United States improved, the *Balikatan* series of joint exercises which were suspended in 1991 were resumed in May 1999; in February–March 2000, U.S.-Philippine exercises were conducted off Palawan in the South China Sea.

From the American perspective the Taiwan issue and the South China Sea were linked, and if China was disposed to use force over Taiwan it would similarly do the same over the South China Sea, thereby endangering shipping and navigation. In August 1999 at a time of tension in Beijing-Taiwan relations after Lee Teng Hui in July had announced the "two state theory", two U.S. aircraft carriers, Kitty Hawk and Constellation, moved into the South China Sea as a demonstration of resolve. This was repeated in August 2001 when the carriers Carl Vinson and Constellation with 13 escort vessels staged a similar manoeuvre as a response to Beijing's war games and the simulation of an attack upon Taiwan.[49] Singapore had earlier announced in January 1998 that U.S. carriers would use its port facilities for repair and maintenance visits and a special dock was constructed to accommodate them. The U.S. regularly conducted joint training exercises with Malaysia which begun in 1994, and moreover, under the Five Power Defence Arrangement (FPDA), exercises involving Britain, Singapore and Malaysia were conducted in the South China Sea area. CNN reported in February 2002 that CINCPAC Dennis Blair had visited Hanoi and had raised the issue of American naval access to Cam Ranh Bay which was to be vacated by the Russian navy.[50] Vietnam, however, refused the American request in view of China's looming presence.

The involvement of the U.S. had changed the situation and had nullified China's previous strategy of asserting control over the South China Sea. Not surprisingly, the Chinese became aware of the risks of pushing ASEAN countries militarily closer to the U.S. which would result in greater access to the region's port facilities for the American navy and strengthened military cooperation. Enhanced U.S. access to ASEAN would then assist the implementation of U.S. military strategy in relation to the Taiwan issue providing the American navy with a position to counter a Chinese naval blockade of the island. China's main concern in negotiations with ASEAN over the South China Sea became the reduction of U.S. involvement in the issue, which motivated

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the insistence that the dispute should be discussed bilaterally and not multilaterally. Chinese Ambassador to the Philippines Guan Dengming cautioned the Philippines about the U.S. and declared that third parties should not interfere.[51] Chinese representatives continually warned ASEAN about involving the U.S. openly in the issue which revealed their most immediate fears. At the ASEAN-China SOM in Cha-am in Thailand, Senior Counsellor to the Ministry of Foreign Affairs Yangi Yi warned ASEAN against military alliances with the U.S.[52] A change in the Chinese attitude could be noted. Malaysia's Defence Minister Datuk Seri Najib Tun Razak declared after meeting with his Chinese counterpart General Chi Haotian that China wanted to change its image and that China should not be viewed as an enemy or potential aggressor.[53] China reached agreement with Vietnam over several outstanding border issues, on 30 December 1999 over the land border and on 25 December 2000 over the Gulf of Tonkin, over the delimitation over the territorial seas and over fishing activities. The South China Sea was left aside but the fact that China was receptive to an agreement with the major claimant over other pressing issues was indicative of an intention to reduce risks. The Chinese explanation for this change lay in the adoption of the "new security concept" which was first announced in 1996 as a Chinese version of common security.[54] It was then introduced into the ASEAN Plus Three meeting in Brunei in August 2002 as the declaratory basis of China's foreign policy and for relations with ASEAN in particular.[55]

Negotiations on the Code of Conduct

ASEAN foreign ministers at the 29th AMM in July 1996 endorsed the idea of a code of conduct "to lay the foundation of long term stability" in the South China Sea for which the earlier Philippine-China agreement of August 1995 would serve as a model. Vietnam and the Philippines were both requested to prepare a draft to be submitted to the ASEAN SOM for discussion.[56] One of the major difficulties at the outset was the geographical scope of the code as Vietnam insisted that the Paracels, occupied by China and claimed by Vietnam, be included as well as the Spratlys. The failure to agree over the geographical scope prolonged the process until the Philippines took the initiative to draft its own document, prompting the Vietnamese to do the same; both then submitted their drafts to the ASEAN SOM in May 1999.[57] The Vietnamese draft defined the disputed area as the Paracels and the Spratlys, which ASEAN resisted. Malaysian officials objected to the Philippine draft, which was couched in the language of a formal treaty, a concern shared by Indonesia whose representatives called for

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a political and not a legal document. Unable to decide upon the Philippine and Vietnamese drafts, ASEAN foreign ministers then sent both to a working group for reconciliation.

The combined draft endorsed by the ASEAN working group included a compromise where both the Vietnamese definition of the disputed area (Spratlys and Paracels) and the Philippine definition (Spratlys), were mentioned. Most controversial was Philippine's insistence on a provision which would commit the parties to refrain from the occupation of new islands, reefs or shoals. The other provisions calling for dialogue and cooperative activities in functional areas such as marine environment protection were taken from the earlier Philippine-China bilateral agreement of August 1995.[58] China was consulted over the process in May 1999 when Syed Albar Hamid chaired a ASEAN-China meeting. Chinese Foreign Minister Tang Jiaxuan then gave his blessing to a set of guidelines which would govern behaviour in the area.[59] In the preparation for the ASEAN informal summit of November 1999, the Chinese side was briefed by senior officials on the combined ASEAN draft, and then produced a working draft of their own. The Chinese draft referred to disputes in the Nansha or Spratly Islands in particular which were to be resolved bilaterally, parties were obliged to put aside all disputes and to engage in joint development and cooperation. They were also urged to refrain from action which would "complicate or magnify the disputes" which referred to Philippine-U.S VFA. The Chinese draft also included a provision that the parties would refrain from the use of force or the resort to "coercive measures" against fishing vessels "engaged in normal operation in the disputed waters." This was a clear reference to Philippine actions against Chinese fishing vessels, and the detention of fishermen.[60]

Chinese interest in the code of conduct was significant. China could have rejected the ASEAN drafts as undesirable multilateralism in much the same way as its representatives prevented the issue from being raised at the ARF. The value of a code of conduct became apparent to the Chinese, however, after the Philippines moved to involve the U.S. in the issue in 1998. Thereafter, the salient Chinese demand was for the exclusion of external powers and a ban on military exercises involving them. The ASEAN draft was presented to SOMs on 25 November for consideration by heads of government at the 3rd ASEAN informal summit. The ASEAN draft was approved by heads of government when the Philippines removed any reference to the Paracels to obtain Chinese approval. This draft then referred to "disputed areas" of the South China Sea, without mention of the Paracels, which continued to be contested by Vietnam.[61] The Chinese objected to all major provisions of the draft and in particular the Philippine insistence

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on the ban on the occupation of new structures; they then circulated their own version of a code of conduct at the summit.[62] In Singapore, Chinese Premier Zhu Rongji declared that there was no hurry to proceed over the code of conduct and resolution of the issue was postponed.[63]

Subsequently, China pressed to have its own version of a code of conduct accepted by ASEAN. This version spelled out the Chinese concern more clearly and specified that "parties should refrain from conducting any military exercises directed against other countries in the Nansha Islands and their adjacent waters, and from carrying out any dangerous and close in military reconnaissance." The Chinese draft also banned naval military patrols in the area as well, and excluded the Paracels from the geographical area.[64] Senior Counsellor to the Chinese Foreign Ministry Yang Yanyi continually warned ASEAN against large-scale multinational military exercises in the disputed area and military alliances with states outside the region. Yang declared that the region was developing its own confidence building measures and did not require external involvement.[65] The Chinese presented their draft to the ASEAN-Chinese SOM in Cha-Am, Thailand, in March 2000 and Kuching, Malaysia, the following May. In principle agreement was obtained which avoided the controversy over geographical scope and which simply included the South China Sea without mention of the Paracels. This was done by limiting the area covered to disputed areas claimed in the South China Sea by more than two claimant states. Thailand's Deputy Director General of the Foreign Ministry's East Asia Department, Seehasak Phaungketkeow, revealed that the code would recognize that disputes should be resolved on a bilateral basis, a concession to the Chinese position, and that it would cover four areas: the management of disputes in the South China Sea; trust and confidence building; cooperation in maritime issues and environmental protection; and modes of consultation.[66]

Once again, the code languished within the SOMs as the differences seemed irreconcilable, both within ASEAN and in relation to China. Vietnam still pressed for the inclusion of the Paracels and the Philippines expected ASEAN support for the ban on new structures. Malaysia moved to resolve the deadlock at the 35th AMM in Brunei in July 2002 where Syed Hamid Albar proposed a declaration on a code of conduct as a further concession to the Chinese, which would be even less binding than a code.[67] At the ASEAN AMM a disagreement arose with the Filipinos who demanded a code of conduct, and not just a declaration, without prejudice to territorial claims and maritime regimes or jurisdictions and recognized under UNCLOS.[68] Albar told ASEAN foreign ministers at the AMM that the choice was the declaration or nothing, they then endorsed the declaration and the

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Chinese delegation then accepted the idea of a declaration on 27 July.[69] Chinese interest in the process was expressed when Defence Minister Chi Haotian visited Manila and agreed to support a "mechanism" to resolve the issue, which was left undefined.[70] Nonetheless, certain details were negotiated before the document was finally accepted; China rejected the Philippine provision which banned the erection of new structures on islands or reefs and it was replaced in Article 5 with an agreement to "refrain from action of inhabiting uninhabited [sic] islands, reefs, shoals etc". China was reluctant to accept the obligation to work for a code of conduct after the declaration was signed and demanded the words "on the basis of consensus," which were included as Article 10.[71] The declaration was signed at the 8th ASEAN summit at Phnom Penh in November 2002.[72]

Within ASEAN there was some elation as China for the first time had signed a multilateral declaration over the South China Sea. The declaration fell short of a code of conduct with the legal status that the Filipinos had initially sought but it was all that was attainable under the circumstances. China had hesitated from going further which revealed the dilemma that it faced between the need for regulation of the dispute and the desire to maintain freedom of action over the area. China had not fully embraced multilateralism in its dealings with ASEAN, but the hope was that it would gradually be induced to accept multilateral negotiations as a matter of course. Most important was the recognition on China's part that a suitably-worded code of conduct could work in its favour in terms of limiting the risk of conflict in the area, which could involve the U.S. in the dispute. The experience of Taiwan over 1995–96 demonstrated to the Chinese that the assertion of territorial claims may provoke U.S. involvement, and could embolden the weaker claimants to oppose them. Moreover, China now requires ASEAN cooperation over the implementation of the ASEAN-China Free Trade Agreement signed in November 2001 and hopes to use ASEAN to balance both the U.S. and Japan in the region. The South China Sea has become strongly linked with these other issues which constrain China from acting unilaterally to assert its claims, despite earlier intentions.

The declaration of conduct is a start but further steps will be required to regulate behaviour and to prevent possible clashes over claim zones and resources. As energy companies move into the South China Sea to exploit resources, disputes over sovereignty may be expected and it would be in China's interest to accept a governing regime over the area with all its obligations. The Chinese commitment to exclusive sovereignty and a suspicion of ASEAN intentions acts as an obstacle, however. While China dithers, the situation becomes

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complicated by the activities of the major energy companies which are promoting de facto joint development. Indonesia's Pertamina has developed a gas pipeline from the Natuna Islands to Malaysia and Singapore; Petronas has formed a joint venture company with PetroVietnam to explore oil in the Vietnam claim zone, Petronas and PetroChina are collaborating with Pertamina in the production of natural gas in the Indonesian zone;[73] Petronas has planned for joint exploration off Sarawak with Pertamina and PetroVietnam; Indonesia plans an Asian Gas Grid Project (AGG), which will involve the construction of a gas pipeline from the Natuna fields to Da Nang in Vietnam, Hong Kong, Fuzhou, and Shanghai; China would receive 40 per cent of the piped gas.[74] The demand for energy will intensify company activity in the area creating a *fait accompli* which will strengthen the pressure for a resolution of the claims to sovereignty.

Conclusion

The policy positions of major actors involve powerful domestic vested interests and are not easily changed as the result of the propagation of regulative norms alone. When vested interests perceive that they hold a dominant position over an issue by reason of military power or sheer size, it would be futile to imagine that they can be converted to an acceptance of norms of behaviour, which would constrain their advantage. Norms assume importance when repetitive efforts to assert a favoured position meet with failure, or are perceived to be attended by increasingly unacceptable risks. As the dominant state in the issue, China has had little incentive to consider constraining norms in a situation in which it has had the power advantage. The pursuit of regulative norms in this situation where one state commands such an obvious advantage over the others, where that state has limited experience of observing international norms, and has a history of resorting to power to promote its interests, demands respect for certain diplomatic fundamentals. Above all, an imbalance in power should be addressed, if not by the resort to external power then at least its possibility, which would remove the temptation on the part of the dominant state to seek gains by unilateral means.

China's shift from norm-defying to norm-affirming behaviour has required the rectification of this imbalance in the way outlined above. Chinese officials claim that ASEAN's links with external powers create suspicions which prevent the conclusion of a code of conduct, which China would be otherwise willing to sign. The code of conduct that these officials envisage would be a Chinese imposition, however, one which would give even less protection to ASEAN and which would

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allow China to shape relations with ASEAN to its benefit. This experience has shown that when weaker states face a potential hegemon, a necessary balance is required before norms can assume an important role as a basis for conflict avoidance and preventive diplomacy. Without that stability, the emphasis upon norms becomes a public relations exercise unrelated to the real security concerns of the states involved.

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Contemporary Southeast Asia 25, no. 3 (2003): 363–86 ISSN 0219-797X

U.S.-Malaysian Relations during the Bush Administration: The Political, Economic, and Security Aspects

PAMELA SODHY

This article examines the closer and more complex relationship between the United States, the sole superpower, and Malaysia, a leading ASEAN nation, during the new Bush administration and the closing years of the Mahathir administration. This period marks a new stage in their bilateral relationship, one that places greater emphasis on security ties because of the global war on terrorism after September 11. The September 11 attacks have significantly impacted the U.S.-Malaysia relationship, especially as Southeast Asia is now viewed as the second front in the war against terrorism. This paper first provides some historical context by noting the state of the relationship towards the end of the Clinton administration. The second part then discusses the closer U.S.-Malaysian relationship on the political level during the Bush administration. The third part examines economic ties which have continued to grow steadily. The final section deals with the growing security ties, especially over strategies to fight terrorism, and will stress that security is now the dominant theme in the relationship.

Bilateral Relations during the Clinton Presidency

In general, since Malaysia's independence in 1957, the United States and Malaysia have enjoyed cordial relations in trade, investment, defence, narcotics control, and cultural and educational exchanges.[1] Both nations also adhere to shared core values, such as the belief in democracy, in free enterprise, and in religious tolerance. Over the

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years, cooperation between them has outweighed tension. Briefly, past tensions have included the tin and rubber stockpile disposal plans, the Vietnamese refugee problem, the palm oil issue, the fears over America's withdrawal of its General System of Preferences (GSP) privileges for Malaysia, and differing perceptions on the Gulf War. During the first Clinton administration (1992–96), the relationship began very well. For example, on the political front, Clinton's first term saw an end to the Vietnamese refugee problem as all the remaining refugees in Malaysia were, by 1996, repatriated to Vietnam with U.S. assistance.

Clinton's second term (1996–2000) saw increasing bilateral tensions over several issues, making the closing years of the Clinton administration a very difficult period in U.S.-Malaysian relations, perhaps the most difficult to date. First, there was trouble over the 1997 Asian financial crisis, with a clash of views on its causes. To Mahathir, the crisis was due to the actions of currency speculators like George Soros, while to U.S. policymakers it was due to the lack of transparency in business dealings, the collusion between government and business, structural weaknesses in the Asian economies, and to other reasons like over-speculation, corruption, and cronyism.[2]

The two countries also held differing views on how to handle the financial crisis. Mahathir chose to use controversial currency controls which pegged the Malaysian ringgit to the U.S. dollar, required all ringgit to be sent back to Malaysia, and prevented the ringgit from being taken out of Malaysia for at least a year to stabilize the stock market and protect Malaysia from destabilizing short-term outflows of foreign capital. He also believed in priming the pump to jumpstart the Malaysian economy. His policies, however, meant going against International Monetary Fund (IMF) and World Bank prescriptions for the stricken Southeast Asian nations, such as fiscal restraint and the cutting of subsidies. Mahathir was criticized at the time for his currency controls but he has since been vindicated as the controls did work for Malaysia whereas some IMF and World Bank policies further weakened countries like Indonesia.[3] Yet another source of irritation in 1997 was the U.S. attempt to investigate the Petronas gas deal in Iran. In protesting this move, the Malaysian government pointed out that it did not accept extra-territorial applications of Washington's Iran-Libya Sanctions Act of 1996 and that Malaysian companies would continue to do business in Iran and Libya.[4]

On top of these differences was growing disagreement with U.S. policy towards the Middle East, especially over what was perceived as America's pro-Israel stance, which was at odds with Malaysia's support for the Palestinian cause. Bilateral tensions were further exacerbated

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when, in September 1998, Mahathir sacked his deputy prime minister and finance minister, Anwar Ibrahim. Mahathir also expelled him from the ruling party and humiliated him with charges of corruption and sexual misconduct.

Tensions increased when Vice President Al Gore made some remarks supporting pro-Anwar demonstrators in a speech at the Asia-Pacific Economic Cooperation (APEC) meeting in Kuala Lumpur in November 1998. In that speech, Gore had hailed "the brave people of Malaysia" for seeking *reformasi* or reform in Malaysia. Relations deteriorated further when Anwar's second trial on sodomy charges ended with a guilty verdict in August 2000 and he was sentenced to another nine years in prison. The U.S. State Department's Richard Boucher said that the U.S. was "outraged by Anwar's conviction" and that the "co-operative relationship with Malaysia has been impeded by Malaysia's poor record on human rights."[5] The Clinton administration ended, therefore, with much friction on the political level and with human rights as the main stumbling block in the bilateral relationship.

The New Bush Administration: Impact of September 11 on Political Relations

When the Bush administration began in January 2001, the political relationship was still at a low point. It remained low due to the continued use of the Internal Security Act (ISA) early that year to arrest and detain members of the Kumpulan Militant Malaysia (KMM), a Muslim group in Malaysia. There was also tension over the State Department's annual human rights report, released in February 2001, which criticized Malaysia's handling of the case against Anwar as being politically motivated and which questioned the independence of the judiciary. But the wide rift in US-Malaysian relations was soon mended through tragedy — the September 11 attacks. The attacks on the World Trade Center in New York and on the Pentagon, the first attacks on the U.S. mainland since the War of 1812, led to a great outpouring of sympathy and concern by Malaysians. Upon hearing of the attacks, Mahathir immediately phoned the U.S. embassy in Kuala Lumpur to condemn the terrorist attacks and to express his condolence.

The Malaysian premier also signed the condolence book at the U.S. embassy. In addition, he beefed up security at the U.S. embassy, at U.S.-owned factories, and at other strategic locations in the country. There were security concerns as an ex-army officer had phoned the U.S. embassy, threatening to blow it up, before he was arrested within 14 hours of his call. Moreover, there had been bomb threats at the Petronas Twin Towers in Kuala Lumpur and at the IBM Plaza in Taman

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Tun Dr Ismail. The Skybridge at the Petronas Twin Towers was closed temporarily to the public. The premier also offered the United States the services of the Malaysian Search and Rescue Team. In deference to the loss suffered by the United States, Mahathir cancelled his official visit to Germany and Russia and postponed Malaysia's National Day celebrations, originally scheduled for 12 September, to a later date.[6]

All these gestures of goodwill were much appreciated by the United States. First, the new U.S. Ambassador, Marie T. Huhtala, upon her arrival in Malaysia on 30 September 2001, said that the United States deeply appreciated the condolences from the Malaysian premier and his strong condemnation of terrorism and that she looked forward to working closely with the Malaysian government in the international effort to prevent further acts of terrorism.[7] Then, the following day, President George Bush also telephoned Mahathir to thank him for supporting America's efforts to combat terrorism. They discussed economic repercussions from the attacks and agreed that new types of tactics and new forms of international cooperation were needed. They also agreed to meet later that month at the APEC Meeting in Shanghai. Mahathir voiced concern about domestic terrorism in Malaysia and told the U.S. President that he would write to him to elaborate on Malaysia's position and views on terrorism.[8]

In mid-October 2001, just prior to the APEC meeting, U.S. Trade Representative Robert B. Zoellick called on Mahathir to convey Bush's appreciation of Mahathir's letter on his counter-terrorism proposals. At this meeting, the Malaysian premier reiterated Malaysia's stand against terrorism, adding that the fight against terrorism should be in unison with the international community, that the root causes needed to be tackled first, and that he wanted the U.S. to find a way to settle the problem in Palestine. Zoellick also pointed out that America was waging a war against terrorism and not against Islam. He then praised Malaysia, saying that the U.S. viewed it as a model for developing countries in terms of progress, development, and religious tolerance.[9]

On 20 October 2001, when Bush and Mahathir met face-to-face in Shanghai, Mahathir again stressed the need to remove the root causes of terrorism and singled out the Palestinian problem as the main cause. Bush replied that he believed that there should be a Palestinian state and a Jewish state. Both leaders agreed that the Palestinian problem had to be resolved, with Mahathir pointing out that its resolution would reduce the frustration and anger in the Muslim world. Both concurred too that, while they differed on certain issues, they were in broad agreement on fighting terrorism. Mahathir also related to Bush how Malaysia in earlier years had successfully overcome its communist insurgency problem. Neither side mentioned Anwar Ibrahim or Al Gore

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at the meeting. Their cordial exchange ended with Bush saying that the bilateral relationship should be strengthened.[10] Nevertheless, Mahathir spoke out against the U.S. when it launched attacks against Afghanistan — that the attacks could not be justified as there were Afghans who were not Taliban followers. To him, the main reasons for the recent terrorist attacks included the atrocities against the Palestinians and the grave injustices in Chechnya and Iraq. He called for understanding about the root causes of terrorism and for a definition of terrorism.[11]

In early 2002, the Malaysian government also submitted a memorandum to the U.S. embassy voicing its protest against the harsh treatment of Taliban prisoners at the American naval base in Guantanamo Bay, Cuba. Malaysia was then giving food, medical care, and supplies to the Afghan people.[12] Another source of irritation was the new visa restrictions on Muslim men wishing to enter the United States. This rule, enforced in late 2001, requires male Muslims aged between 16 and 45 to wait for 20 days for their visa application to be processed, so as to allow for scrutiny by the Federal Bureau of Investigations (FBI) and the Central Intelligence Agency (CIA). It affected men from 26 predominantly Muslim nations, including Malaysia. The Muslim visa applicants also had to complete a detailed questionnaire on weapons training, military service, and employment.

In April 2002, Mahathir received an invitation from Bush to visit Washington from 12–14 May. This invitation was delivered personally by James Kelly, U.S. Assistant Secretary for East Asia and the Pacific, who remarked that it was very important for Bush to "say thank you to a respected leader for a very stirring response in a global campaign against terror". Kelly told Mahathir that the U.S. viewed him as "a moderate Muslim leader of a progressive and modern Muslim state" and that it regarded Malaysia as "a beacon of stability in this region".[13] Kelly's statements revealed a significant shift in U.S. policy towards Malaysia — from a focus on human rights issues to a new focus on security. This shift became very clear when Kelly disclosed at a news conference that he did not raise the issue of Anwar with Mahathir. He said the U.S. still considered Anwar a political prisioner but would not demand a new trial, hoping instead that the matter would be resolved through the ongoing appeals process.[14]

By then, the United States was no longer criticizing the ISA which it had earlier called "draconian". This was because the U.S. had its own Patriot Act of October 2001 which also allows for detention without trial.[15] Hence, Mahathir's past use of the ISA against Muslim militants began to be viewed in a new light, as no longer just domestic politics or attempts merely to stifle opposition. Mahathir had used the ISA in 1986, after Malaysian police had fought an Islamic militant group led

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by Ibrahim Libya in Memali, Kedah. He had used it again in July 2000, after the government stopped an arms heist by another militant group, Al-Ma'unah, with ties to both KMM and Al-Qaeda terrorists. He used it yet again in August 2001, when 10 KMM members were arrested for subversive activities that included the hoarding of a large cache of firearms and ammunition. The ISA was also used against KMM members implicated in the 2001 bombings of two churches and a shopping mall in Jakarta.[16] While these events were unfolding, a *Washington Times* article by Amy Ridenour, the president of the National Center for Public Policy, a non-partisan Capitol think-tank, claimed that Anwar had close links to radical Islamic fundamentalists and had begun an international public relations effort to destabilize the Malaysian government. But these claims were labelled as "ludicrous" by Anwar's wife and quickly dismissed.[17]

In January and April 2002, therefore, when the Mahathir government made further arrests of KMM members using the ISA, the United States did not protest.[18] Both countries were already collaborating closely in the fight against terrorism. For example, Malaysia agreed to America's request to freeze the assets and accounts of those involved in terrorism and they co-hosted an international workshop on financial measures against terrorism in Honolulu. Malaysian police also confirmed reports that several KMM members had links with Zacarias Moussaoui, a Moroccan of French nationality, who the United States charged with conspiring with terrorists linked to Osama bin Laden in the hijacking of two aircraft used in the September 11 attacks. Furthermore, Malaysian immigration officials confirmed that Moussaoui was in the country between 4–15 September 2002, and again on 5 October 2002. In Malaysia, Moussaoui had received help from Yazid Sufaat, a businessman and former army captain. Yazid had also allowed two of the September 11 hijackers to use his apartment several months before the attacks. At first, Malaysian authorities had claimed that there was no evidence that Al-Qaeda was active in the country but later the authorities acknowledged some links. These links, however, prompted a newsmagazine article on a secret FBI report which said that Malaysia was used as a "launch pad" to carry out the September 11 attacks. While this annoyed Malaysian officials, the FBI Director Robert S. Mueller Jr called the magazine article "inaccurate" when he met with Malaysia's Inspector-General of Police, Norian Mai, to discuss law enforcement issues of mutual interest in the fight against terrorism. Assistant Secretary of State, James Kelly, also said the reference was "unfair". Instead, Kelly praised Malaysia for its "excellent job" in

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tracking down terrorists and for its intelligence sharing with the United States.[19]

In any case, the United States was very impressed with Malaysia's cooperation. It was also impressed with Malaysia's leadership role under Mahathir in the Association of Southeast Asian Nations (ASEAN). Malaysia chaired the ASEAN Mekong Basin Development Cooperation, was actively involved in ASEAN's Singapore-Kunming Rail Link, and extended educational and technical aid under its Malaysian Technical Cooperation Program to Vietnam, Laos, Myanmar, and Cambodia, the regional body's latest members. The United States was also impressed with Mahathir's leadership role in the 57-member Organization of Islamic Conference (OIC). In April 2002, he chaired a special three-day OIC session on terrorism in Kuala Lumpur at which he condemned terrorism and said that all attacks against civilians must be considered acts of terrorism, thus calling both the Israelis and Palestinians terrorists.

Mahathir was putting Malaysia on the map in the global war against terrorism. Malaysia also attracted U.S. attention as one of three Muslim states in APEC. Moreover, Mahathir's East Asia Economic Caucus (EAEC) proposal had, since 1992, been accepted as a caucus within APEC. In addition, Mahathir had a leadership role in the Non-Aligned Movement and was a recognized leader of the Third World and of South-South cooperation. Furthermore, Malaysia had been rated in 2002 as the fourth least corrupt nation in Asia and as one of the top 20 globalized nations in the world. In the top 20 list, Malaysia was one of only two Muslim nations.[20] Malaysia's profile in international affairs was rising too through its role in Burma, where Mahathir's special advisor and UN Special Envoy to Burma, Razali Ismail, had brokered a deal with the military junta for the release of Aung San Suu Kyi from house arrest. Besides, Malaysia had a fine track record in many UN peacekeeping operations around the world. It had participated in more than 20 UN peacekeeping missions since 1960, including the mission in Somalia where its peacekeepers had helped in the 1993 rescue of U.S. soldiers in Mogadishu.[21]

The Bush-Mahathir meeting in May 2002 was a big success, as was the rest of Mahathir's Washington visit. This visit significantly improved political relations between the two countries, leading to remarks that the bilateral relationship had become "more positive," was "on the right track," and even "on the fast track."[22] A *New Straits Times* editorial commented, "Freshly sensitized, the U.S. Government has sensibly stowed the Clinton human rights agenda in the bottom drawer where it belongs."[23] At the White House, Bush said he wanted "to publicly

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thank the Prime Minister for his strong support in the war against terror." He also praised Malaysia as a modern, moderate, and prosperous Muslim nation and as "an important example to Southeast Asia and the world." The Anwar issue was only briefly touched upon in that Bush mentioned, in passing, that the U.S. had not changed its position on the former deputy premier being a political prisoner. Instead, they discussed bilateral issues, terrorism, and the Middle East, with Mahathir stressing the importance of resolving the Middle East issue. Both agreed that the roots of terrorism had to be addressed, that violence on civilians had to stop, and that a two-state solution would allow Palestine and Israel to exist. Bush concurred with Mahathir that besieged groups, like the Palestinians, needed to have hope about the future.[24]

In Washington D.C., Mahathir also declared open the new Chancery of the Malaysian embassy, an impressive US$27 million building, met with Malaysian students, and addressed the U.S.-ASEAN Business Council at a dinner meeting attended by 300 corporate executives.[25] His dinner address stressed that "Malaysia has zero tolerance for terrorism," that "terrorism can never be justified under any circumstances," and that "if we are to prevent it we must not only hunt down all the terrorists but also remove the root causes that make some people angry and bitter enough to commit or support acts of terror." In addition, he pointed out that "Fundamental Islam proscribes suicides and the killing of innocent people."[26] His U.S. visit was also marked by a joint Declaration on Cooperation to Counter Terrorism, with Foreign Minister Syed Hamid Albar signing for Malaysia and Acting Secretary of State Richard Armitage for the U.S. This declaration provides for the exchange of information, data, and intelligence to enhance and strengthen existing relations and cooperation on terrorism. Bush noted that the declaration "codifies our determination to strengthen counter-terrorism efforts even further."[27]

At the October 2002 APEC meeting in Mexico, President Bush announced that Malaysia had agreed to host the regional training centre while deputy premier Abdullah Ahmad Badawi clarified that, when operational in 2003, the centre would not involve military training but would focus on capacity-building to counter possible terrorist threats in the region.[28] He later added that, to protect Malaysia's sovereignty, the regional training centre would not open its doors to foreign intelligence agents, including those from the CIA.[64] Malaysia faced no opposition from other ASEAN states about the regional centre. The ASEAN member states had themselves signed a new anti-terror pact in late July 2002 in Brunei to share intelligence and increase police cooperation to prevent, disrupt, and combat international terrorism. They had also signed a U.S.-ASEAN anti-terrorism accord with Powell

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at the ASEAN Regional Forum (ARF) meeting, also in Brunei, to share intelligence and to enhance regional cooperation against terrorism.[29]

Much more problematic, however, were the bilateral tensions over U.S. policy towards Afghanistan and Iraq. In September 2002, Mahathir warned that there would be no end to Muslim terrorism if the powerful nations were bent on revenge rather than on solutions. He added: "The U.S. and Britain must listen to the voices of the world, including the Muslim countries."[30] Another warning came from the president of the Muslim Youth Movement of Malaysia (ABIM) who said: "There is neither moral nor political justification for the unilateral American-British military action against Iraq without the consent and approval of the UN."[31] Mahathir voiced his strongest criticism against war when he chaired, in Kuala Lumpur from 20–25 February, 2003, the Non Aligned Movement's 13th Summit Meeting which was attended by 112 of the movement's 116 member nations.[32] By then, critics of the war in Malaysia and elsewhere were voicing other concerns, such as their being unconvinced of links between Saddam Hussein and Osama bin Laden or of Saddam having weapons of mass destruction. Not surprisingly, when the United States and Britain did go to war against Iraq, from 19 March 2003, to 1 May 2003, Malaysia condemned their actions.

U.S.-Malaysia Relations: The Economic Dimension

Trade and investment between the two nations continue to steadily increase, despite concerns about the state of the Malaysian economy. These economic ties, the earliest feature of the U.S.-Malaysian relationship, remain one of its strong fundamentals. As a *New Straits Times* editorial correctly noted: "There has always been a reservoir of goodwill in the relations between Malaysia and the U.S., especially at the people-to-people and business levels."[33] In 2001, Bush's first year in office, Malaysia was America's 12th largest trading partner. By 2002, Malaysia had moved up to 11th place, with two-way trade amounting to US$30 billion. At present, in mid-2003, the volume of trade between them has crept up to over US$34.4 billion and Malaysia is now America's 10th largest trading partner while the U.S. continues to be Malaysia's largest trading partner.[34] The balance of trade remains in Malaysia's favour.

Within ASEAN, Malaysia enjoys the largest volume of trade with the U.S. Also, the U.S. exports more to Malaysia than it does to India, Italy, Russia, Spain, or Switzerland.[35] The major U.S. exports to Malaysia include electrical and electronic products (E&E), aircraft, optic and medical instruments, plastics, paper and paperboard, tobacco, edible

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fruits and nuts, inorganic chemicals, ceramic products, and chemical products. Within the E&E sector, the top U.S. exports to Malaysia are integrated circuits (44.1 per cent in 2002), office machines and parts, semi-conductors, computers and components, gas turbines, and other machinery. As for Malaysia's main exports to the U.S., these include E&E products, textile and apparels, rubber; furniture and bedding, optic and medical instruments, mineral fuels and oils, wood, toys, sports equipment; fats and oils, and organic chemicals. In 2002, the E&E products alone made up 27 per cent of Malaysia's total exports to the United States.[36]

The high volume of U.S.-Malaysia trade is the result of hard work on both sides. On the U.S. side, those actively promoting trade include the U.S. ambassador to Malaysia, the Economic and Commercial sections of the U.S. embassy in Kuala Lumpur, the U.S.-ASEAN Business Council, and the American-Malaysian Chamber of Commerce (AMCHAM), which represents over 300 American companies in Malaysia. The U.S. ambassador, with U.S. embassy assistance, has led several trade and investment missions to Malaysia, including a March 2002 U.S.-ASEAN Business Council mission that toured Kuching, Johor Baru, Penang, and Kuala Lumpur. The president of the U.S.-ASEAN Business Council, Ernest Z. Bower, also assured Malaysian leaders after September 11 of the U.S. business community's commitment to Malaysia. He pointed out that U.S. investments had tripled between 1990 and 2000 from US$1.5 billion to US$6 billion, of which 57 per cent was in the manufacturing sector, 21 per cent in petroleum and natural resources, and 22 per cent in services and related industries. At the same time, he warned that negative media reports from Malaysia could affect new investments into the country.[37] The president of AMCHAM, Nicholas Zeffreys, told Mahathir after September 11 that the imminent economic slowdown would not deter Americans from investing in Malaysia "as it is the most prosperous Islamic nation in the world."[38] On the Malaysian side, the champions of trade include Mahathir, Rafidah Aziz (Minister for International Trade and Industry), the government departments connected with trade, and Malaysian entrepreneurs and their companies. In particular, Mahathir has shown himself to be Malaysia's top "travelling salesman" and an active practitioner of "*ringgit* diplomacy."[39] The Minister for International Trade and Industry, Rafidah Aziz, has also led numerous trade and investment missions to the United States. During an eight-day trade and aerospace investment mission to the U.S. in October 2002 to find areas suitable for greater U.S.-Malaysia business collaboration, she alerted American businessmen to the following: biotechnology and life sciences; chemicals and pharmaceuticals; machinery and equipment; advanced electronics; and information and

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communications technology. She encouraged Americans to use Malaysia as the springboard to the growing ASEAN and China markets and informed them about the Malaysian-American Electronics Industry Association which comprises 18 well-known U.S. companies, including Intel, Motorola, Western Digital, AMD, Dell, and Texas Instruments.[40]

U.S. investment in Malaysia is mainly in the electronics, oil, and gas sectors, where the U.S. has been the top investor for many years. In 2001, the U.S. was the biggest investor with investments totalling US$6 billion, mostly in the petroleum products sector which accounted that year for 40 per cent of total foreign investments. U.S. investments were also high in other sectors like E&E, transport equipment, chemicals, chemical products, basic metal products, and machinery.[41] According to Ambassador Huhtala, if U.S. investments in gas and oil are also counted, the $6 billion figure would jump to US$20 billion.[42] In 2002, however, Malaysia experienced a 40 per cent drop in foreign direct investment (FDI), in part due to September 11 and to keen competition from China. That year, Germany overtook the U.S. in terms of the value of new investment into Malaysia.[43]

The Malaysian government is addressing the problem of falling FDI. To attract FDI, the Prime Minister, who is also Finance Minister, introduced several measures in 2002 to enhance the country's competitiveness. Accordingly, a non-resident currently taxed on income received for services rendered overseas will no longer be liable to pay income tax. Also, companies that pay sales and service taxes but which do not collect them from clients can regard these as bad debts and receive a refund. In addition, the valuation method for sales tax used on imported goods will also be adopted for locally manufactured goods. Furthermore, incentives under the Pioneer Status and Investment Tax Allowance for a company providing energy conservation services will be extended for another three years to 31 December 2005. The government is also offering a 10-year income tax exemption for companies setting up their operational base in Malaysia and abolishing the import duty and sales tax on quality paper and the service tax on courier services.[44] A new incentive in mid-2003 is allowing foreigners full ownership in manufacturing operations, a major concession which reverses the 30-year government policy of requiring foreign companies to give 30 per cent ownership to the Malays.[45]

These incentives have met with some encouraging responses from U.S. businesses. In April 2002, two months after the premier's visit to America, SPM Malaysia, a subsidiary of the San Diego-based SEMX Corporation, announced plans to expand its operations in Malaysia, such as moving its high-end technologies in thermal management products and packages from San Diego to Malaysia. In July 2002,

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General Electric also relocated several of its key business operations in Southeast Asia to Malaysia. For instance, it relocated its president's office from Jakarta to new premises in Kuala Lumpur. In addition, in August 2002, Boeing set up its first Southeast Asian headquarters at the Petronas Twin Towers in order to work closer with the region's armed forces, leading airlines, and aerospace industry.[46] On the downside, in March the same year, the California Public Employees' Retirement System decided to liquidate its stock portfolio holdings in Malaysia, Indonesia, Thailand and the Philippines due to alleged lack of transparency and poor labour standards.[47]

In any case, the greater U.S.-Malaysia trade relationship is operating against the backdrop of challenging conditions in both countries. For the United States, the Bush administration began with a downturn in the American economy, marked by cutbacks and retrenchments. The situation was exacerbated by the September 11 tragedy which led to more expenditure on security, a drop in tourism, and the decline of the airline industry. More funds were also spent on the airstrikes on Afghanistan and the war in Iraq. The United States also had to deal with corporate scandals and with tax cuts and job layoffs. The 2003 U.S. budget deficit now stands at US$450 billion, a figure in sharp contrast to the budget surplus of US$236 billion at the end of the Clinton administration in 2000. The trade figures disclose that for the second consecutive year U.S. global trade has declined; the U.S. trade deficit has also increased 10.5 per cent from the previous year to US$425.69 billion.[48]

In Malaysia, the U.S. economic downturn adversely affected the electronics industry which suffered a sharp decline in demand. The year 2001 saw many U.S. electronic companies in Malaysia downsizing their operations and retrenching their workers. For example, Seagate Technology closed its plant in Prai while Gateway cut 25 per cent of its global workforce. Microchip-maker Advanced Micro Devices also closed two of its manufacturing plants and cut 2,300 jobs due to the slack in demand and competition from other firms. In all, over 10,000 factory workers were laid off in 2001, mostly in the electronics sector, and the government had to set up a task force to see to their concerns. The rubber gloves sector also fell on hard times because of over-supply, which in turn led to lower selling prices, higher costs, and intense competition.[49] By 2002, however, the market for electronics had improved and many U.S. firms started hiring workers again and reporting profits. Seagate reported increased earnings in December 2002, especially in its Asia-Pacific operations. Other U.S. companies that undertook expansion and diversification activities in Malaysia in 2002 were Intel, Jabil Circuit, Mini Circuits Technologies, and Motorola.[50] Besides the

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U.S. economic slowdown, Malaysia also had to deal with the impact of the September 11 attacks on America, the U.S. involvement in Afghanistan and Iraq, and the Severe Acute Respiratory Syndrome (SARS) scare.

Unlike earlier years, Malaysia is now better able to weather an economic storm as its economy has become more broad-based. If one sector, for example electronics, is adversely affected, Malaysia can depend on other sectors, like construction, agriculture, and mining.[51] Moreover, the Malaysian government is taking pragmatic steps, like fiscal measures or prime pumping schemes, to deal with economic concerns. So, despite the global economic downturn, Malaysia is presently enjoying a growth rate of around 4.5 per cent.[52] In previous decades, if the United States had a cold, Malaysia would catch pneumonia but now, Malaysia can avoid getting the sniffles. Times have changed. Malaysia has become more of an equal partner in its relationship with the U.S., and more self-reliant.

This does not mean, however, that the economic relationship is trouble-free. There is some tension over intellectual property rights: Malaysia was the third biggest source of pirated and counterfeit goods, such as CDs, VCDs, and DVDs, seized by U.S. customs in 2001. Malaysia has received warnings to reduce the rate of piracy as it is already on the Priority Watch List. If the problem remains unchecked, Malaysia risks being put on the Section 306 Monitoring List whereby trade sanctions can be imposed. Malaysia has informed the United States that it plans to put price controls on CDs, VCDs, DVDs, and computer software to deal with the problem of piracy but the U.S. Department of Commerce wants tougher penalties.[53] In October 2002, Malaysia in turn voiced concern about the 11-day shutdown of 29 ports on the U.S. west coast, due to a management lockout order in a dispute over wages, benefits, and working conditions. The U.S. economy suffered massive losses from the shutdown. To Malaysia's relief, the Federation of Malaysian Manufacturers reported that only "minor injury" had been inflicted locally. Those adversely affected were manufacturers dependent on sea transportation, such as dealers in bulky electrical equipment like washing machines and air-conditioning units. But they were in the minority while the majority of manufacturers, in the electronics industry, were unaffected due to their dependence on air transportation.[54] Another issue that needs to be resolved is a tax treaty between the U.S. and Malaysia. The U.S. is keen to secure such a treaty as it will allow American entrepreneurs to avoid double taxation. Both governments have been working on the treaty for a decade but progress has been hampered by technicalities, including agreements on bank information sharing. The U.S.-ASEAN Business Council has indicated it wishes the

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tax treaty to materialize as soon as possible as bank secrecy, an impediment, is now under scrutiny as part of the war on terrorism.[55]

In the meantime, the U.S.-Malaysia economic relationship also includes two new initiatives from Washington: the ASEAN Cooperation Plan (ACP), announced by Secretary of State Powell in Brunei on 1 August 2002 and the Enterprise for ASEAN Initiative (EAI), announced by President Bush on 26 October 2002. The ACP is aimed at enhancing America's relations with ASEAN, which to the U.S. is the key institution fostering stability and development in Southeast Asia. The ACP aims at cooperation in three areas: ASEAN integration, particularly with regard to economic development and investment, good governance, rule of law, democratization, and civil society; cooperation on transnational issues, especially terrorism, narcotics, piracy, the environment, HIV/AIDS, and trafficking in persons; and strengthening the ASEAN Secretariat. The ACP is coordinated by the Department of State with participation by a number of U.S. government departments and agencies.[56] The EAI offers the prospect of bilateral free trade agreements (FTAs) between the U.S. and ASEAN countries that are committed to economic reforms and openness. The initiative is meant to be mutually beneficial to both sides as ASEAN is now America's third largest overseas market. The EAI will create a network of bilateral FTAs which will increase trade and investment between the U.S. and Southeast Asia. FTA partners need to be members of the World Trade Organization (WTO) and to have concluded a Trade and Investment Framework Agreement (TIFA) with the U.S.[57] The U.S. has already signed an FTA with Singapore, has TIFAs with Indonesia, the Philippines, and Thailand, and is discussing an FTA with Malaysia.

U.S.-Malaysia Security Relations

Despite all the rhetoric against the war in Iraq, Malaysia has developed a closer security relationship with the United States. This security relationship revolves around the war on terrorism which has become the number one priority. Malaysia's consent to the setting up of a Regional Counter-Terrorism Centre in Kuala Lumpur, with U.S. assistance, is a manifestation of these closer security ties. Nevertheless, Mahathir is against the U.S. conducting any sort of military-like operation in the country without first informing Malaysia and getting its cooperation, i.e. Malaysia is opposed to the Bush doctrine of preemptive strikes to eliminate suspected terrorist hideouts, as it was opposed to U.S. unilateralism over Iraq in defiance of the United Nations. Thus, when the Southeast Asia Regional Centre for Counter-Terrorism

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(SEARCCT) was set up in Kuala Lumpur on 1 July 2003, the United States was dropped as a partner.[58]

Counter-terrorism is their most recent area of cooperation on the security front and is carried out on the bilateral, regional, and international levels. With Southeast Asia as the second front in the global war on terrorism, Malaysia and other nations in the region are receiving more U.S. attention and military aid. This new emphasis on security was well explained by U.S. Ambassador Huhtala soon after her arrival in Malaysia. When asked whether she planned to focus on economic, political, or human rights issues, she replied: "All three are very, very important but right now the number one priority for me and all of our ambassadors around the world is the war against terrorism". Later, she called the fight against terrorism the "biggest and most urgent challenge to peace in the world."[59]

This cooperation on terrorism did not begin only after the September 11 incidents. In 1996, Malaysian authorities had helped the U.S. to capture and arrest Kuwaiti terrorist Wali Khan Amin for his involvement in the 1993 bombing of the World Trade Centre.[60] In 2000, Malaysian authorities monitored, upon CIA request, a meeting of Al-Qaeda operatives organized by Riduan Isamuddin, or Hambali as he is known, a leader in the Jemaah Islamiyah, a radical Islamic group with ties to Osama bin Laden. Among those who attended this meeting were terrorists who later bombed the *USS Cole* in Yemen that October and the two hijackers who crashed the aircraft into the Pentagon in 2001. Malaysia was thus able to supply the U.S. with valuable information, including names and photographs of the terrorists, as highlighted in the U.S. Joint Congressional Committee Report on the September 11 attacks.[61] After September 11, Malaysian intelligence personnel were again very helpful in providing further information to the U.S. about Hambali and other terrorists. This information eventually revealed that Hambali was involved in a 1995 plot to bomb 11 U.S. commercial airliners in Asia and in several other terrorist attacks in the region, including bombings in Indonesia and in the Philippines. Both sides soon learnt that the terrorists were intent on forming a large Islamic state in Southeast Asia comprising Indonesia, Malaysia, the southern Philippines, Singapore, Brunei, and parts of Thailand and Burma.[62] In October 2001, the FBI and Malaysian police also cooperated closely in investigations over a letter contaminated with the anthrax bacteria. The next month, Malaysia foiled a plan by a group of local militants linked to Osama bin Laden to attack American sailors in Malaysia, while in December it helped to identify and arrest terrorists involved in an abortive plan to bomb the U.S. embassy and other sites in Singapore.[63] Between September 11, 2001 and April 2002, Malaysia had

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also arrested 62 Muslim terrorists.[64] Bilateral security cooperation intensified after the Bali bombings in October 2002.

A new dimension in U.S. military aid since September 11 has been Non-proliferation, Anti-terrorism, Demining and Related Programs (NADR) assistance to help Malaysia establish effective export controls through adequate legal and regulatory infrastructure and enforcement procedures.[65] The Malaysian government has also agreed to participate in the U.S. Customs Service's Container Security Initiative (CSI) designed to prevent terrorists from smuggling weapons of mass destruction into America. The CSI was launched in January 2002 as part of the U.S. war on terrorism on the international front. Under this initiative, to be implemented in November 2003, U.S. Customs officials are to be stationed at foreign ports to work with local authorities to examine containers considered at high risk for clandestine activities. Malaysia has informed the U.S. that it might not be necessary to have U.S. Customs personnel in its ports as the necessary information can be sent to them. The Malaysian shipping industry has also raised concerns about possible losses or damages from the CSI screenings while the World Shipping Council claims that the U.S. Customs ruling about the full manifest of U.S-bound cargo 24 hours before loading may harm maritime trade.[66] Another recent development involving Malaysia is the FBI announcement in April 2003 that it plans to expand its operations overseas to fight global crime and terrorism by sending a legal attaché to the U.S. embassy to work closely with local authorities and to help in coordinating efforts to extradite fugitives.[67]

Since September 11, bilateral cooperation on curbing money laundering has increased. Malaysia also agreed to a U.S. request to cease the K.L.-U.S. money order service from 9 August 2002 while Prime Minister Mahathir called for changes in international banking laws to allow governments to scrutinize foreign bank accounts of suspected crooks. In addition, both countries work closely to fight other forms of transnational crime, such as economic crimes and cyber crime.[68] The security cooperation has included Malaysia's deportation of a wanted terror suspect, Ahmed Ibrahim Bilal, after the U.S. revoked his passport on charges that he conspired to wage war against America and supported the Al-Qaeda network. Bilal was then studying at the International Islamic University but turned himself in after appearing on America's list of alleged terrorists. Malaysia deported him in October 2002 on immigration violations, thus avoiding a long extradition process.[69]

Malaysia's cooperation on security has, of course, been much appreciated by the US. For example, the FBI Director praised the role of the Malaysian police prior to and after the September 11 attacks.

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Ambassador Huhtala also remarked: "The Malaysian Government has taken strong steps against terrorism and its cooperation with the United States in this work has been excellent." Moreover, she commented: "It is very clear that Malaysia is part of the solution and not part of the problem in the struggle against terrorism."[70] Furthermore, Defence Secretary Donald Rumsfeld told Malaysian Defence Minister, Najib Tun Razak in Washington in early May 2002: "It is impressive ... the extent to which Malaysia is a cooperating partner in the global war on terrorism". The U.S. is especially pleased with Malaysia's "on-the-ground law-enforcement and intelligence cooperation against terrorism."[71] This appreciation of Malaysia's role in the war on terrorism helped to mute prior U.S. criticism of Malaysia's ISA. By May 2002, U.S. Attorney-General John Ashcroft "positively endorsed" the ISA when he met with Rais Yatim, Minister in the Prime Minister's Department.[72]

Meanwhile, the United States continues to extend limited military assistance to Malaysia in the form of Foreign Military Sales (FMS) credits for defence purchases and the International Military Education Training (IMET) programme for building up Malaysia's armed force personnel. Malaysia is considering the purchase of American FA-18 Super Hornet multi-role fighter jets, along with defence purchases from Russia, Brazil and South America, as part of its armed forces modernization plan, put on hold after the Asian financial crisis. Malaysia is keen to increase the fighter capacity of the Royal Malaysian Air Force.[73] Under the IMET programme, Malaysian military personnel receive technical and professional training in America — by 2002, over 1,500 Malaysian defence personnel had received such training in 2002, Malaysia sent 48 students under this programme at a cost of US$831,000.[74] High ranking military officials have also been selected to attend courses at the Asia-Pacific Centre for Security Studies in Honolulu, Hawaii. As of September 2001, 37 Malaysians had attended courses as fellows at this Centre.[75]

Both countries also continue to work closely on narcotics control as they view drug abuse and trafficking as security problems. They began their cooperation in the late 1970s after becoming alarmed at the drug problem, the U.S. over the large supply of drugs from Southeast Asia and Malaysia over its rising number of addicts and its growing notoriety as a drug trafficking and processing centre. In Malaysia, the continuing war on drugs is connected to the AIDS problem as intravenous drug use is still one of the leading causes of the spread of the disease. The U.S. acts as a mentor to Malaysia, helping it with interdiction and seizure efforts, prevention and enforcement techniques, intelligence methods, financial investigations, and rehabilitation programmes. The

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U.S. Drug Enforcement Administration has organized many training programmes for Malaysian police officers, customs agents, and chemists and provided equipment and funds for drug prevention programmes.[76] It has also helped Malaysia to combat the menace posed by synthetic drugs such as Ecstacy pills. At present, two main U.S.-funded counter-narcotics programs for Malaysia are through the International Law Enforcement Academy in Bangkok and the Baker-Mint counter-narcotics training programme sponsored by the Department of Defense.[77] Because the drug problem is global, the cooperation is also multilateral. This cooperation continues to be amicable, mutually beneficial, and the most successful area of the U.S.-Malaysian relationship. However, it is presently eclipsed by concerns about terrorism.

The latest developments in the bilateral cooperation on drugs include the new U.S.-Malaysian Extradition Treaty, which allows Malaysian police to work closely with U.S. officials to formally extradite suspects to the United States, and efforts towards a Mutual Legal Assistance Treaty, which will allow their law enforcers to obtain information and investigative assistance from each other. The cooperation against illicit drugs continues to be very good as the U.S. has, in its annual International Narcotics Control Strategy Report for 2002, praised Malaysia for its "excellent" help. This report also lists the number of drug users in Malaysia in 2002 as 212,000 and notes that the main drugs abused are heroin and psychotropic pills, including Ecstacy and crystal methamphetamine.[78]

In recent years, security cooperation has included the plying of the Malaysian waters by ships of the U.S. Seventh Fleet to provide a security umbrella. The U.S. views Malaysia as occupying a critical strategic position on the Malacca Straits, a vital sea lane through which most of Japan's oil supply is shipped from the Middle East. Moreover, about a third of the world's maritime trade goes through these Straits. Malaysia hosts about 15–20 U.S. Navy ship visits each year.[79] These ship visits are also useful in sharing intelligence and information and in helping to curb piracy in the region. After September 11, more emphasis has been placed on protecting the Straits of Malacca as it is viewed as vulnerable to attack. Since 2002, India has joined the U.S. in joint patrols of the Malacca Straits due to their growing concern about piracy and terrorism. Under this arrangement, Indian Navy ships monitor the area from the Andaman Sea end while the Seventh Fleet ships protect the area from the Japanese side.[80]

Another aspect of the bilateral security relationship is Malaysia's provision of air and port facilities to the United States, facilities that the United States has required after the 1992 closure of its Philippine military bases. Malaysia now allows the U.S. airforce to mount

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surveillance flights and to use its air bases in the event of a crisis. Malaysia's Defence Minister, Najib bin Tun Razak, has described the close bilateral defence relationship as a "well-kept secret."[81] In a speech during his May 2002 visit to Washington, he revealed that Malaysia allowed U.S. military flyovers on a case-by-case basis during Operation Enduring Freedom in Afghanistan. He also disclosed that Malaysia provides one of the few bases outside America for U.S. military jungle-warfare training and that U.S. Navy SEALS conduct training in Malaysia twice a year. In addition, U.S. naval vessels are repaired and maintained in Malaysia. In this connection, U.S. tugboats and landing ships have undergone repair and maintenance at the Lumut dockyard in Perak.[82] Malaysia is not alone among the ASEAN states in providing these services as Singapore and Indonesia offer similar facilities.

Yet another form of security cooperation is the annual bilateral military exercises by their military forces. Code-named Co-operation Afloat and Training (CARAT), these exercises cover land, sea, and air activities over a ten-day period and have been taking place for the past nine years. In 2002, a total of 1,400 U.S. marines and 1,100 Malaysian armed forces personnel took part in military activities that include air combat exercises, jungle exercises, naval, diving and salvage exercises, and amphibious raids. These exercises expose Malaysian forces to the latest military technology while enhancing bilateral military cooperation and increasing inter-operability capability. In 2002, Malaysia was one of six ASEAN states to take part in the CARAT exercise, the others being Brunei, Indonesia, Thailand, Singapore, and the Philippines.[83]

Under Bush, the security relationship has been very cordial except for friction over the long wait for U.S. visas after September 11 and the travel advisories alerting U.S. citizens to potential security threats in Malaysia. On the visa issue, during his September 2002 visit to America, the deputy premier requested the speeding up of visa approvals for Malaysians. He was assured that the matter would be addressed but further delays occurred because of security concerns.[84] As for the travel advisories, Malaysia has complained about their adverse effects. For example, after the terrorist bombings in Bali, when the U.S. State Department warned that similar attacks could take place in Malaysia, a *New Straits Times* editorial complained: "For a developing country like Malaysia such warnings are indeed detrimental to its economy because they can have an adverse effect on tourism and foreign investment". The editorial noted that Malaysia seemed to be riding the global economic uncertainties quite well and then added: "The U.S. scaremongering therefore smacks of economic sabotage against a country that has been cooperating substantially to wipe out global terror."[85] In response, Ambassador Huhtala tried to explain, in an interview on

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CNN's *Asia Tonight*, that travel warnings to U.S. citizens are "part of our democracy" and "not intended to destroy economies or discourage tourism to certain countries."[86] In Malaysia, however, there was fear about the economy as the global economic slowdown had followed on the heels of the 1997 Asian financial crisis. On the other hand, the U.S. felt duty-bound to alert its citizens to potential threats, especially in Sabah, where Abu Sayyaf rebels from the Philippines had kidnapped tourists at the resort island of Sipadan in 2000.[87] Malaysia's Inspector-General of Police said he would look into possible bomb threats on Sabah while the Chief Minister of Sabah accused America of being paranoid about terrorism.[88] In May 2003, after terrorist bombings in Saudi Arabia, the State Department issued yet another travel advisory for Malaysia, again focusing on Sabah. Once more, the advisory evoked resentment, this time because it followed the U.S. war on Iraq and the SARS scare, both of which had already heightened local concerns about the Malaysian economy.

Conclusion

In conclusion, the September 11 terrorist attacks on the United States have greatly impacted the U.S.-Malaysian relationship, making security cooperation the most important area in bilateral relations under the Bush administration. This cooperation is strongest on anti-terrorism measures, especially as Malaysia has become the anti-terrorist training centre in Southeast Asia. The security cooperation is also very strong on narcotics control. The security cooperation has eclipsed the attention to human rights issues and very little, if anything, is being said about the Anwar case. There is also increased overall cooperation on trade and investments. The U.S.-Malaysian relationship, despite appearances and rhetoric, has strong fundamentals and is marked more by cooperation than tension. The pillars of the U.S.-Malaysian relationship are trade, educational ties (not covered in this article), and security and defence cooperation. As for the tensions in the relationship, these are mainly on the political level but they no longer revolve around human rights issues. Instead, they revolve around U.S. foreign policy under Bush and around different perspectives on Jews and Muslims. Among Malaysians, there is some anti-U.S. sentiment over U.S. foreign policy, which at times is seen as anti-Muslim, while some Americans view Malaysians as being anti-Jewish. Despite talk on both sides, their actions do speak louder than words and they work very closely on many important levels. Hopefully, wisdom will prevail on both sides in resolving some issues, such as that on Middle East policy. Meanwhile, the U.S. feels

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reassured that there will be a smooth transition in Malaysian leadership after Mahathir's retirement.

The future of the relationship depends on several variables: the leadership in both countries; the compatibility of policies; economic and security conditions; the situation in the Middle East; the state of the world economy; and the results of the war on terrorism. The early years of the 21st century thus mark a challenging period for both countries and for their bilateral ties.[89]

NOTES

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10. "Malaysia-US Ties are Warming Up", 21 October 2001, ibid., pp. 1–2.
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Contemporary Southeast Asia 25, no. 3 (2003): 387–404 ISSN 0219-797X

The ASEAN-China Free Trade Agreement and East Asian Regional Grouping

KEVIN G. CAI

Despite growing enthusiasm for an East Asian economic grouping in the wake of the Asian financial crisis, the decision of ASEAN and China to move toward an FTA still came as a major shock. However, the move is the result of rational calculations by the political leaders of ASEAN and China of possible costs and benefits that such an FTA will bring. It reflects ASEAN's and China's active response to the challenges brought about by the intensifying regionalism in the global economy, the growing economic ties between them, and the impact of the Asian financial crisis. The movement toward an FTA is a significant development in East Asian integration — a development that could have a major impact on the political economy of East Asia in general and the process of forming an East Asian regional grouping in particular.

Introduction

In recent years there have been calls for institutionalized regional economic cooperation in East Asia, especially in the wake of the Asian financial crisis of 1997–98. Two prominent proposals for an East Asian regional grouping attracted regional and global attention. The first is the proposal for an East Asian regional free trade area (FTA) to be constructed on the basis of the ASEAN Plus Three (APT) framework. An alternative proposal calls for the Association of Southeast Asian Nations (ASEAN) to establish FTAs with China, Japan, and South Korea respectively within the framework of an ASEAN Plus One (APO) forum.

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Due to existing constraints inside and outside the region, however, the formation of an East Asian grouping remained difficult. It was within this context that the announcement by ASEAN and China in November 2001 to start talks on an FTA came as a major shock to the region and beyond. When the same idea had surfaced publicly a year earlier, it had been widely regarded as unrealistic, as it was thought that ASEAN would refuse to go along.

This article attempts to explore how and why the ASEAN-China FTA has emerged as the most likely regionalist scheme across East Asia instead of other similar proposals. Furthermore, it also assesses the impact of the ASEAN-China FTA on the process of East Asian regional integration. To address these issues, the article is organized into four major sections. The first section provides a brief review of the growing enthusiasm for a regional grouping in East Asia in recent years. The second part looks at recent efforts to move toward a region-wide grouping and the major obstacles confronting such an endeavour. The third section analyses why the ASEAN-China FTA has emerged as the most favoured free trade scheme ahead of the ASEAN-Japan, ASEAN-South Korea, or East Asian FTAs. Finally, the article considers the possible implications of the ASEAN-China FTA for East Asia's movement toward a region-wide grouping and the political economy of East Asia and beyond.

Growing Enthusiasm for an East Asian Regional Grouping

The discourse on the forces behind increasing enthusiasm for an East Asian regional institution is well pursued in a number of scholarly works.[1] Generally speaking, the recent growing penchant for an institutionalized East Asian grouping is widely seen as the result of the combined effect of the deepening and expansion of the European Union (EU) and the North American Free Trade Agreement (NAFTA); the growing economic ties among East Asian economies; the impact of the Asian financial crisis of 1997–98; and the growing dissatisfaction of East Asian governments with the increasingly apparent limitations of the Asia-Pacific Economic Cooperation (APEC) forum and ASEAN in defending and promoting the interests of East Asia.

Growing economic regionalism in the world economy since the mid-1980s seems to have created a single most important external imperative for East Asia to pursue a regional grouping for itself.[2] Of the three global economic centres, East Asia is the only region that is not yet formally organized, while Western Europe has been entrenched in EU and North America has its NAFTA. What is even more worrisome

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for East Asia is the prospect of EU's expansion to include Eastern European countries and the enlargement of NAFTA to form a Free Trade Area of the Americas by 2005. Given the heavy dependence of East Asian economies on these two major markets and their outward-oriented development strategies, the intensifying regionalism in other areas has raised concern among East Asian economies over the diversion of trade and investment flows.[3] Moreover, EU and NAFTA have not only formed themselves into increasingly closed markets but have also come to the bargaining table in multilateral trade negotiations as blocs. This leaves individual East Asian states frequently in a much weaker bargaining position in multilateral trade negotiations. All this has brought home a strong feeling of East Asia being excluded and isolated in the arena of global economic competition.

While regionalism was intensifying elsewhere, there has also been a concomitant acceleration in economic ties among East Asian countries since the mid-1980s, as illustrated by rising intra-regional trade and foreign direct investment (FDI) flows. In particular, there has been a relative decline in importance of the United States as a market and concurrent increasing importance of the regional markets for East Asian economies over time (see Table 1). As a result, a sense of increasing interdependence, regional community, and common interests has both emerged and strengthened.

TABLE 1
Changing Distribution of East Asia's Exports and Imports between East Asia and the United States, 1985 and 2001

	World		*East Asia*		*USA*	
	1985	*2001*	*1985*	*2001*	*1985*	*2001*
Value of Exports to ($ billion)	367.8	1,525.3	127.3	742.7	121.0	357.0
Share of Total Exports to	100%	100%	34.6%	48.7%	32.9%	23.4%
Value of Imports from ($ billion)	318.9	1,342.8	128.6	725.3	55.5	190.6
Share of Total Imports from	100%	100%	40.3%	54.0%	17.4%	14.2%

SOURCE: Calculated from IMF, *Direction of Trade Statistics Yearbook, 1992 and 2002* (Washington, D.C.: International Monetary Fund, 1992 & 2002).

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It is within this general context of global and regional political economy that the Asian financial crisis of 1997–98 provided a direct and vigorous catalyst for the most recent push to establish an East Asian grouping. The Asian crisis, which started in Thailand on 2 July 1997 as a financial crisis, rapidly spread to the whole region and evolved into a broader region-wide economic crisis. As the most serious economic crisis in Asia in the post-war era, it directly contributed to the momentum for an East Asian regional grouping[4] in three major ways.

First, the lack of a mechanism for close policy coordination and cooperation among the region's governments is widely cited as being responsible for the rapid and unchecked contagion of the crisis. This bitter experience not only proved that East Asian economies were now so closely interdependent, but also revealed how each of them was exposed, fragile, and vulnerable to an economic crisis that might originate anywhere in the region. The consequence has been a dramatic change in thinking among East Asian leaders, who increasingly realize the urgent need for the formation of a formal regional mechanism to deal with any similar crisis in the future and to maintain economic growth in the region. It is in this sense that the Asian financial crisis created an imperative that is significantly transforming the political economy of East Asia, thus laying a new foundation for regional economic cooperation in East Asia.[5]

Second, the Asian financial crisis is widely believed to have resulted from the financial liberalization that the International Monetary Fund (IMF) and Washington pushed hard on East Asian economies in the early 1990s.[6] Once the Asian financial crisis set in, the IMF imposed policy prescriptions supported by the U.S. government — strategies which soon resulted in catastrophic economic and social consequences for the crisis-hit countries. These Western, particularly American-enforced policies together with Washington's strong opposition to the creation of an Asian Monetary Fund (proposed in the early stage of the crisis by East Asian countries to help bail out the affected economies and stop the further spread of the crisis) have strengthened what Richard Higgott calls East Asia's "resentment" of American dominance. They also increased the willingness of East Asian countries to explore a vehicle for close regional cooperation that would help to weaken American dominance in East Asia's political economy.[7]

Third, the Asian financial crisis has shown that APEC and ASEAN, with their current structures, are unable to help East Asian states pursue their common interests of maintaining regional economic stability and promoting prosperity. Despite the initial high expectations of APEC in promoting the common aims of its diverse members, the organization

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increasingly exposed its impotence in achieving its self-declared goal of trade liberalization. By the mid-1990s it became apparent that there was a growing division within APEC between the Anglo-American members and the East Asian members over the direction of the organization, with the former pushing for binding and comprehensive targets for trade liberalization and the latter emphasizing trade facilitation and economic and technical cooperation.[8] It was within this context that APEC's limitations were laid bare during the Asian financial crisis of 1997–98 in that East Asian economies were under no protection and assistance of any form within the APEC framework. This naturally raised questions about the efficacy and relevance of APEC for East Asian economies.[9]

On the other hand, while ASEAN is generally a well-organized institution, it is far from representing the interests of East Asia as a whole, given the association's professed commitment to strengthening regional cooperation among its ten Southeast Asian members. Moreover, ASEAN itself is plagued with internal divisions over a range of political, economic, and social issues. The association's expanded membership in the 1990s has led to increased internal disparities in terms of political and economic systems, levels of economic development, and governmental policy priorities — all of which have substantially undermined the organization's coherence and unity. Meanwhile, the decline of Indonesia as a result of the Asian financial crisis has brought about a leadership crisis within ASEAN. More importantly, ASEAN, mainly consisting of small states, is simply too weak as an economic bloc and is not in a position to exert substantial influence on regional and global affairs, besides being unable to compete with EU and NAFTA. ASEAN states, with the exception of Singapore, are basically competing with, rather than complementing, one another. As a result, ASEAN economies not only rely less on each other, but also depend much more on regional or global economic powers for markets, technology, and capital. All these weaknesses were patently reflected in ASEAN's inability to provide any meaningful assistance to its crisis-ridden members. Under such circumstances, a more effective strategy for ASEAN to reinvigorate and strengthen itself and to improve its position and influence in the regional and global arena is to seek cooperation with regional powers, particularly Japan and China.[10]

It is within this general background that there have been mounting calls for a regional vehicle for cooperation in East Asia, among which the proposals for an ASEAN Plus Three (APT)-based East Asian FTA and ASEAN Plus One (APO)-based FTAs have attracted particular attention from policy-makers and scholars.

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From EAEG to APT: A Difficult Path Towards an East Asian Regional Grouping

Among various proposals for regional integration, the call for the creation of an East Asian region-wide grouping was the earliest and by far the most influential. The idea of forming an East Asian grouping was first explicitly proposed by Malaysian Prime Minister Mahathir Mohamad in 1990 when he called for the formation of the East Asian Economic Grouping (EAEG). Mahathir's proposal not only received strong opposition from the United States, which feared it might evolve into an exclusive East Asian bloc, but also met with cold response from other East Asian governments which were under American pressure to withhold support for this idea and were themselves wary of Mahathir's plan. However, despite initial setbacks, the idea of greater institutionalized East Asian cooperation remained sound enough to be pursued later.

In the late 1990s, the East Asian grouping idea was revived via the APT forum.[11] Initiated by ASEAN, APT first emerged from the need of ASEAN and the three Northeast Asian countries — China, Japan and South Korea — to prepare for the Asia-Europe Meeting (ASEM), which was first held in 1996.[12] APT soon evolved into an institutionalized forum for consultation and cooperation between ASEAN and three Northeast Asian countries over a growing range of regional issues. Progress toward regional cooperation is highly publicized in annual informal APT summit meetings following annual ASEAN summits. The first APT summit was held during the 1997 ASEAN Summit in Kuala Lumpur, followed by a range of regular ministerial and other official meetings involving foreign ministers, finance ministers, economic ministers, central bank governors and senior officials from other ministries and government offices.

The East Asian Vision Group (EAVG) and the East Asian Study Group (EASG), based on a proposal by President Kim Dae-jung of South Korea, were established in December 1998 and November 2001 respectively "to explore practical ways and means to deepen and expand the existing cooperation" between ASEAN and the three Northeast Asian countries, "and prepare concrete measures and, as necessary, action plans for closer cooperation in various areas".[13] The EAVG, which consists of eminent intellectuals from ASEAN, China, Japan and South Korea, submitted its Report to the APT Summit in Brunei in 2001, and the EASG, which is made up of government officials, submitted its Final Report to the APT Summit in Cambodia in November 2002.

A significant move under the APT framework was the creation of a regional currency swap arrangement in 2000 known as the Chiang

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Mai Initiative. Under this currency swap arrangement, a bilateral currency swap and repurchase mechanism was established on the basis of the ASEAN swap arrangement. The swap arrangement requires that each state commit a certain amount of currency to be used whenever a partner state experiences a currency crisis and needs to borrow foreign exchange. When an East Asian state under the arrangement faces a currency crisis, other states within the framework should come to its rescue by providing emergency aid to help ease that state's liquidity problem and prevent the spread of its currency crisis to other parts of the region. Although this is a regional mechanism based on bilateral arrangements, this move reflects the resolve of the East Asian governments to commit themselves to closer regional cooperation. It is within this process of growing regional consultation and cooperation that there has emerged a call for APT to be transformed into an East Asian FTA. At the 2001 meeting in Brunei, while participants discussed the possibility of establishing an APT secretariat, South Korean President Kim Dae-jung went as far as to propose the formation of an FTA that would include all APT members.

While the enthusiasm for an East Asian grouping has been mounting in the wake of the Asian financial crisis, existing obstacles continue to make regional integration in East Asia more a problem than a practical possibility. This may explain why Kim Dae-jung's proposal for an East Asian FTA was immediately considered premature. Douglas Webber aptly points out that while APT has greater integration "potential" than ASEAN, it also has some traits that militate against very close cooperation or integration among APT members.[14] Among the major obstacles, America's opposition obviously constitutes a most important external hurdle to the formation of an East Asian grouping. Washington's opposition matters not only because the American market, which still absorbs 23.4 per cent of the exports from East Asia as a whole, remains very important for East Asian economies (see Table 1), but also because America's military presence is widely seen as crucial in maintaining security and stability in the region. For small players, the American presence in the region is even implicitly welcomed as necessary for balancing two regional powers, China and Japan. As Washington has long been suspicious of an exclusive East Asian bloc, its opposition to an East Asian grouping that excludes the United States will hardly change until the Americans are convinced that an institutionalized East Asia will promote, rather than hinder, global liberalization of trade and investment.

America's opposition aside, it must be admitted that the obstacles within the region are even more formidable. In the first place, political

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trust among governments, which is essential for any effective regional integration, has not yet been truly established in East Asia. This mistrust derives not only from the lingering historical legacies of Japanese imperialism before and during World War II, but also from the smaller states' anxieties about an East Asian grouping dominated by the two regional powers, Japan and China. Moreover, continuing security issues and territorial disputes are not conducive to establishing trust either.

The huge gap in economic development levels among East Asian countries also works against effective economic cooperation in East Asia. Because of their economic differences, East Asian governments have varying policy priorities and pursue diverse economic and social policies. Policy coordination and cooperation among such diverse members within a regional grouping would be difficult. Furthermore, it could be argued that successful regional integration largely hinges on the willingness and capacity of a hegemonic state to assume a leadership role.[15] However, Japan, the most powerful economy in the region, seems reluctant as well as unready to play a leading role in the creation of an East Asian FTA. This is partly due to Japan's increasing incapacity to play the role of "consumer of last resort" for the exports of other East Asian economies, given its own financial and economic crisis (a role that is essential for a hegemonic state to assume in promoting regional integration) and partly due to its closed economic system and policies that are not conducive to such a role.

In addition, as cooperation between regional powers is seen as equally crucial for successful regional integration — for example, Franco-German cooperation in European integration and American-Canadian cooperation in the integration of North America — the lack of cooperation between Japan and China remains another important obstacle to East Asian integration. Seeing each other more as rivals than anything else, Tokyo and Beijing remain suspicious of each other's intentions in regional affairs rather than cooperative on the promotion of an East Asian grouping. To some extent, Sino-Japanese rivalry constitutes the single most intractable obstacle to the formation of an FTA within the framework of APT.

In view of all these difficulties, it is not surprising that regional cooperation in East Asia within the APT framework depicts two important features. The first feature is that this process of regional cooperation has been initiated and led by small players, rather than by major powers, as is the case in the process of regional integration in Western Europe and North America. This proves to be a wise strategy to promote integration in East Asia, given the complexity of regional politics and distrust of major regional powers. As this process of East Asian cooperation is initiated by small players in the region, it is

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therefore possible for all the states in the region to be less suspicious of the idea of a regional grouping and more comfortable about getting involved — which could hardly have happened if the process had been initiated by a regional power, for example, Japan or China.

However, it is important to point out that ASEAN only plays a "quasi-leadership role" in the process of regional cooperation through APT due to the lack of leadership by regional powers. This role of ASEAN within APT is made possible simply because such an arrangement has received tacit consent from both Japan and China, who feel that this arrangement serves their respective interests quite well for the time being. If APT is to be transformed into a true regional grouping, it would be very difficult to imagine how ASEAN could provide the type of strong leadership that is usually assumed by major powers, given its limited capacity and internal divisions. This also explains why it is difficult for APT to be transformed into an East Asian grouping within its current framework.

A second important feature of the APT process is that, while ATP provides a forum of consultation and cooperation for ASEAN and three Northeast Asian countries, specific dialogues for substantial cooperation are conducted largely through three parallel mechanisms of APO forums: ASEAN plus China, ASEAN Plus Japan, and ASEAN Plus South Korea. Realizing the constraints that still exist in the region in implementing APT-wide cooperative programmes, APT leaders therefore adopt this practical strategy of promoting regional cooperation through APO to circumvent the obstacles to APT-wide cooperation. As a result, specific cooperative projects are largely pursued between ASEAN and three Northeast Asian countries on a bilateral basis within the framework of APO. This feature of reliance on bilateral cooperation is well illustrated in the regional currency swap arrangement set up under the Chiang Mai Initiative in 2000. While no consensus has been reached as yet within APT on East Asian integration, there are obviously continuing efforts for an East Asian grouping.[16] Actually, APT leaders still see an East Asian FTA as a long-term policy objective rather than reject the idea altogether.

APO and the ASEAN-China FTA

As APT is not likely to be transformed into an East Asian FTA anytime soon due to the existing constraints discussed in the previous section, there are therefore alternative proposals for ASEAN to negotiate on FTAs with three Northeast Asian economies — Japan, China and South Korea — separately within the framework of APO. This strategy, it is argued, would not only circumvent some major hurdles that prevent

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the creation of a region-wide FTA in East Asia through APT, but would gradually create conditions for a true East Asian FTA. It is within this context that ASEAN and China announced in November 2001 their intention to create an FTA between them within a decade. An interesting question is why ASEAN has reached an agreement on an FTA with China first, rather than with Japan or South Korea.

The idea of an FTA between ASEAN and China first emerged during the third ASEAN-Plus-China Summit in Manila in 1999 when ASEAN was recovering from the Asian financial crisis. Realizing its vulnerability to world market fluctuations, ASEAN was expecting China to play a more important role and to have more cooperation with China in the regional economy. In response, Beijing proposed closer cooperation between China and the forthcoming ASEAN free trade area (AFTA) — a proposal that was immediately accepted by ASEAN.

In the following Singapore Summit of 2000, at the initiative of China, it was agreed that an expert group be created to study the feasibility of an ASEAN-China FTA and the implications of China's WTO membership for ASEAN. After a year of research, the expert group submitted a report to the governments of ASEAN countries and China, in which it concluded that the creation of an ASEAN-China FTA would produce a win-win situation for both sides and suggested a 10-year period for the achievement of this objective. The proposal was endorsed by both ASEAN and Chinese leaders. In the Brunei Summit of November 2001, the leaders of ASEAN and China officially announced the decision to authorize the start of negotiations on an ASEAN-China FTA at the ministerial level.[17]

Under the arrangement, the ASEAN-China negotiations are scheduled to be completed by November 2003. Starting in 2004, according to the schedule, it will take six years to establish an FTA between ASEAN and China. In other words, by the end of 2009 an ASEAN-China FTA will have been established, within which, according to the agreement, tariffs will be substantially lowered to 0–5 per cent on all commodities (with the exception of a few special commodities), and all non-tariff barriers will be removed. At the same time, service trade and investment will also be liberalized and trade and investment facilitation measures created within the FTA.[18] To show its "sincerity and goodwill", China has offered to unilaterally open its market to some ASEAN members five years ahead of the opening of their markets to China.[19]

In addition to the removal of tariff and non-tariff barriers and the facilitation of trade and investment, the ASEAN-China FTA will also serve as a framework for overall economic cooperation between ASEAN and China. The whole idea is to establish a comprehensive and close

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relationship between ASEAN and China involving an FTA, and cooperation in finance, regional development, technological assistance, macroeconomic cooperation, and other issues of common concern.[20] The decision to form an ASEAN-China FTA is obviously a significant move by ASEAN and China in response to the intensifying economic regionalism elsewhere and the impact of the Asian financial crisis as discussed earlier. The move by ASEAN and China toward an FTA also reflects the adjustment of their respective political and economic policies in the direction of East Asian integration.

Beijing's participation in APT and APO represents a major departure in Chinese foreign policy in general and foreign economic policy in particular — the Chinese leadership used to be very wary of multilateral diplomacy, which they saw more often than not as putting China in an awkward defensive position in the multilateral arena. Largely as a result of the Asian financial crisis, however, China has been changing its perspective and becoming positive and active in promoting regional cooperation and institution-building. This new policy of China is clearly illustrated by the Chinese Premier's suggestion at the 5th APT Summit in Brunei in November 2001 that, while continuing to focus on economic cooperation, the APT forum could gradually involve dialogue and cooperation on political and security issues.[21] By participating in APT and APO, China obviously hopes to achieve its various policy objectives in East Asia in general and Southeast Asia in particular. Specifically, Beijing believes that APT will help achieve China's major foreign policy objectives of promoting multipolarity in global affairs, fostering East Asian cooperation, and enhancing the role of China in East Asia and the wider Asia Pacific.[22]

Through an FTA with ASEAN, China specifically hopes to strengthen its economic and political relations with ASEAN. An ASEAN-China FTA will help China stabilize its economic relations with ASEAN, which is China's fifth largest trading partner, after Japan, the United States, EU and Hong Kong.[23] It is also an important source of FDI flows to China and an important destination for growing Chinese FDI. In the meantime, an FTA with ASEAN would create a mechanism for China to promote exports and investment in the emerging AFTA. More importantly for the Chinese, with growing institutionalized economic cooperation with ASEAN, Beijing will be able to develop a relationship of trust and partnership with Southeast Asian countries, thus promoting China's foreign policy objective of ensuring peace in the region.[24] In sum, China supports the creation of an East Asian FTA on the basis of APT by adopting a policy of "active participation, broadening consensus, increasing mutual trust, and strengthening cooperation."[25]

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It is interesting to note that China was also actively exploring the possibility of a Northeast Asian FTA with Japan and South Korea.[26] While China adopts a fairly positive attitude toward a possible FTA comprising China, Japan and South Korea, it has decided to form an FTA with ASEAN first as an FTA with smaller states of ASEAN is easier and more comfortable for China to accept than an FTA that involves Japan, given the complexity of Sino-Japanese relations.[27] In the meantime, very different economic structures in China, Japan, and South Korea, and the refusal by Japan and South Korea to open their agricultural markets, also prevent the early establishment of a Northeast Asian FTA.[28] In the event, by pursuing its first FTA with ASEAN, Beijing is obviously adopting a strategy of using the ASEAN-China FTA as a basis for a future region-wide grouping in East Asia so as to occupy a stronger position in the process of moving toward an East Asian FTA that would involve Japan and South Korea.[29] Whether this plan will eventually prove to be productive or abortive, this strategy seems quite reasonable to Beijing under the circumstances.

On the part of ASEAN, the decision to form an FTA with China is likewise motivated by several considerations. First, as an economic grouping, ASEAN is obviously too weak globally, particularly in the face of growing regionalism in Western Europe and North America. As ASEAN countries have much closer economic ties with more powerful Northeast Asian states than among themselves, it makes very good sense for ASEAN to ally with Northeast Asia to strengthen its position and have its voice heard in the global arena. In the meantime, ASEAN hopes to increase its ability to prevent any future financial crises through strengthened regional cooperation. This explains why ASEAN shows increasing interest in promoting regional cooperation with Northeast Asian states within the framework of the APT and APO forums. An FTA with China is therefore seen by ASEAN as a first important step in integration with Northeast Asia.

ASEAN is particularly attracted by the huge Chinese market. The attraction of the Chinese market for ASEAN is twofold. On the one hand, ASEAN's dependence on the Chinese market has grown over the 1990s. With the exception of Singapore, other original ASEAN members (Malaysia, Thailand, the Philippines, and Indonesia) had all increased their trade dependence on China. By 2001, China emerged as ASEAN's fourth largest trading partner, after the United States, Japan, and the EU.[30]

On the other hand, seeing the potential of an ever expanding Chinese economy, ASEAN hopes to establish a stronger presence in the Chinese market. Since the second half of 2000, the economic recessions in North America, EU, and Japan have stimulated growing protectionism

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in these major markets — which in turn has dealt a hard blow to ASEAN exports. This development obviously increases the importance of the Chinese market for ASEAN. As the Chinese economy remains robust in the midst of a global economic slowdown, ASEAN economies are quite naturally attempting to shift their exports more to the Chinese market. Furthermore, China's recent WTO accession has accelerated the further opening of the Chinese market — a factor which makes the Chinese market even more attractive to ASEAN. In similar fashion, ASEAN also aims to receive a big portion of the increasing FDI from China to help its economic development. It is under these circumstances that ASEAN has decided to form an FTA with China to benefit from the increasingly open Chinese market. Consequently, ASEAN leaders have changed their position from viewing China merely as a threat to seeing it as an opportunity for boosting their own capacity for growth through an economic alliance with Beijing.[31]

As for ASEAN and Japan, while there is lavish discussion by politicians about promoting bilateral cooperation, no substantial agreement on institutionalized cooperation has been achieved thus far. The difficulty for ASEAN and Japan to reach an agreement similar to the ASEAN-China FTA comes from both sides. On the ASEAN side, most political leaders of ASEAN states are still wary of a regional grouping that involves Japan as a leading power, as this reminds them of Tokyo's past imperialist ambitions in establishing the Greater East Asia Co-Prosperity Sphere before and during World War II. This concern notwithstanding, overwhelming Japanese economic power is sufficient to arouse ASEAN's fear that an FTA with Tokyo would make ASEAN subservient to the powerful Japanese economy.

On the part of Japan, the difficulty of moving toward an FTA with ASEAN arises primarily from current Japanese government policy. As China's rival, Japan does not have a clear long-term plan for regional integration in East Asia. In the eyes of the Japanese, Japan is a global economic power, and participation in an East Asian regional grouping would confine Japanese interests to the region — an alignment which could damage Japan's global interests in the long term. That is why Tokyo insists that any regional cooperation should involve the United States, Australia, and New Zealand. This also helps explain Tokyo's strategy: while Japan accords special attention to ASEAN and makes efforts to support the economic development of Southeast Asian countries, the way that Tokyo attempts to achieve this objective is to incorporate ASEAN's interests into a broader regional framework of cooperation — such as via the Pacific Economic Cooperation Conference (PECC) and APEC.[32] Another substantial domestic obstacle is the reluctance or inability of the Japanese government to open its agricultural

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market (crucial for an ASEAN-Japan FTA), due to strong opposition from Japanese farmers whose political support is much needed by the ruling party.

Japan was initially even reluctant to get involved in the APT process. It was only after Beijing showed interest in joining APT and building economic ties with Southeast Asia that Tokyo was forced to participate in APT, as Japan "could not afford to let China gain an uncontested leadership position in the region".[33] While not overly enthusiastic about a region-wide FTA for East Asia, Japan, however, seems ready to opt for free trade agreements with some selected economies on a bilateral basis, for example, with Singapore. Japan's desire to conclude a free trade agreement with Singapore in 2002 is quite understandable as the city-state simply does not have an agricultural sector that would threaten the Japanese agricultural market.

Finally, ASEAN has failed to move toward an FTA with South Korea, not only because, as a market, South Korea is obviously not as attractive as China for ASEAN, but also because South Korea, like Japan, is not willing to open its agricultural market to ASEAN for the moment. Probably because of the sensitivity of its agricultural sector, South Korea seems more interested in bilateral free trade agreements with some individual ASEAN economies that would not threaten its agricultural market rather than with ASEAN as a whole. As such, Seoul, by following in the footsteps of Tokyo, is currently discussing a free trade deal with the city-state of Singapore.[34] Given these circumstances, it is ASEAN and China that have finally taken the first steps toward a cross-regional FTA in East Asia.

The Impact of the ASEAN-China FTA on the East Asian Regional Grouping

By starting talks on an FTA within the framework of APO, ASEAN and China have taken by far the most dramatic step towards an East Asian regional grouping. This is a significant development in the political economy of East Asia. It is true that there are some tough issues that need to be handled carefully in the creation of an ASEAN-China FTA, including, most notably, the pace and scope of trade liberalization, policy coordination among ASEAN states that have diverse interests in an FTA with China, economic assistance, territorial disputes over the islands in the South China Sea, and the question of leadership. However, the commitment of ASEAN and China to, and the actual movement toward, an FTA will inevitably impact on both ASEAN countries and China, as well as on the process of creating a regional grouping in East

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Asia and the political economy of the region and beyond. The impact is likely to be felt in several respects.

First, the ASEAN-China FTA will create an economic grouping with a population of 1.7 billion, a combined GDP of over US$2 trillion, and a total trade volume of US$1.23 trillion. According to a research report issued by the ASEAN Secretariat, the FTA will benefit both sides by helping ASEAN increase its exports to China by 48 per cent and its GDP by 0.9 per cent (US$5.4 billion) and helping China increase its exports to ASEAN by 55.1 per cent and its GDP by 0.3 per cent (US$0.9 billion).[35] As a result of the FTA, economic ties between ASEAN and China will become even closer.

Second, the ASEAN-China FTA will pose challenges to both sides in the short term. In particular, there will inevitably be increasing competition between ASEAN and China in their similar labour-intensive and low-value-added sectors.[36] But in the long term, however, the competition issuing from the FTA will help ASEAN and China restructure their economies so as to increase the economic efficiency and competitiveness of their business sector and to attract more FDI inflows into ASEAN and China.[37]

Third, by moving toward an FTA, ASEAN and China have thus positioned themselves well in the ongoing process of regional integration in East Asia. The move toward an ASEAN-China FTA will therefore exert growing pressure on Japan and South Korea on the issue of a regional grouping — and might push Japan and South Korea either to speed up their discussions with ASEAN on the formation of parallel FTAs within the framework of APO, or even to directly join ASEAN and China at some point in the process of ASEAN-China negotiations on their FTA. If Japan and South Korea choose the latter option, the process of formation of an ASEAN-China FTA will therefore evolve into a process of creating an East Asian region-wide FTA. Such pressure on Japan, for example, is already evidenced by the fact that while ASEAN and China move toward an FTA, Japan has concluded a joint declaration with ASEAN on comprehensive economic partnership during the Phnom Penh Summit in November 2002. Eventually, an institutionalized East Asia will truly become a third unified pole in the global economy.

Fourth, in the context of China's recent WTO accession, an ASEAN-China FTA has committed China to liberalization of its economic system not only at the multilateral level but also at the regional level. This dual commitment of Beijing to economic liberalization will make its reform and market opening policy even more irreversible, from which all will benefit.[38]

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Fifth, the move by ASEAN and China toward an FTA will also likely stimulate responses from major economies outside the region, America and Australia in particular, to speed up their discussions with ASEAN for closer economic cooperation or even free trade agreements. This will, on the whole, promote liberalization of trade and investment in the Asia Pacific region.

Finally, the closer economic ties forged by an FTA will help promote a more cordial atmosphere and cooperative relations between ASEAN and China in political and security spheres, thus contributing to a more stable political, economic, and security environment in the region.

Conclusion

The decision of ASEAN and China to move toward an FTA is a significant development in the process of forming an East Asian regional economic grouping. It reflects an active response by ASEAN and China to the challenges arising from deepening and widening regionalism in the global economy, the growing economic ties between them, and the impact of the Asian financial crisis of 1997–98. In the meantime, the move is also a result of rational calculations by the political leaders of ASEAN and China of possible costs and benefits that such an FTA will bring to both sides. Evidently, an ASEAN-China FTA will impact significantly on the process of East Asian regional grouping, particularly exerting strong pressure on Japan and South Korea on the issue of creating an East Asian region-wide FTA. Thus, an East Asian FTA will invariably have substantial implications for the political economy of East Asia and beyond.

NOTES

1. For most recent pertinent discussions of this issue, see, for example, Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?", *Asian Survey* 42, no. 3 (May/June 2002): 440–55; and Douglas Webber, "Two Funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis", *The Pacific Review* 14, no. 3 (2001): 339–72.
2. For a discussion of the rising economic regionalism in the world economy, see Edward D. Mansfield and Helen V. Milner, "The New Wave of Regionalism", *International Organization* 53, no. 3 (Summer 1999): 589–627.
3. This concern over the intensifying regionalism in the world economy is, for example, explicitly expressed in a report submitted by the ASEAN-China Expert Group on Economic Cooperation to their leaders in October 2001, "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century", p. 4. <http://www.aseansec.org>.

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4. Kevin G. Cai, "Is a Free Trade Zone Emerging in Northeast Asia in the Wake of the Asian Financial Crisis?", *Pacific Affairs* 74, no. 1 (Spring 2001): 11.
5. Ibid.
6. See, for example, Ngo Vinh Long, "The East Asian Crisis: Some Historical Roots", *New Political Science* 21, no. 3 (1999): 395–404.
7. Cited from Cai, "Is a Free Trade Zone Emerging in Northeast Asia?" pp. 18–19.
8. Stubbs, "ASEAN Plus Three", p. 447.
9. For a discussion of APEC's weaknesses, see John Ravenhill, "APEC Adrift: Implications for Economic Regionalism in Asia and the Pacific", *The Pacific Review* 13, no. 2 (2000): 319–33.
10. For more discussion of the limitations of APEC and ASEAN, see Webber, "Two Funerals and a Wedding?", pp. 339–72; Stubbs, "ASEAN Plus Three", pp. 447–8.
11. According to Webber, APT is seen as the "in effect" EAEG, which had even "gone far beyond" Mahathir's original proposal. See Webber, "Two Funerals and a Wedding?", p. 356.
12. For a discussion of ASEM, see Christopher M. Dent, "ASEM and the 'Cinderella Complex' of EU-East Asia Economic Relations," *Pacific Affairs* 74, no. 1 (Spring 2001): 25–52.
13. EASG, "Final Report of the East Asia Study Group", submitted to ASEAN+3 Summit, Phnom Penh, Cambodia, 4 November 2002, p. 63, <http://www.aseansec.org>.
14. Webber, "Two Funerals and a Wedding?" pp. 342 and 347.
15. Walter Mattli in *The Logic of Regional Integration: Europe and Beyond* (Cambridge/New York/Melbourne: Cambridge University Press, 1999). Mattli's argument is well discussed by Webber, ibid., pp. 343–7.
16. Actually, the EAVG has put forward various proposals for regional integration, including East Asian Community, East Asian FTA, and East Asian Monetary Fund.
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18. Ibid., pp. 52–4.
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24. Wei, "The Conceptualization of ASEAN-China Free Trade Area", p. 53.
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28. Feng, "China and ASEAN can Share the Prosperity Together," p. 4.
29. Wei, "The Conceptualization of ASEAN-China Free Trade Area", pp. 54–5.
30. Based on IMF, *Direction of Trade Statistics Yearbook, 2002* (Washington, D.C.: International Monetary Fund, 2002).
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32. For a discussion of Japan's ASEAN policy, see Takashi Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the establishment of PECC and APEC", *The Pacific Review* 14, no. 2 (2001): 195–220.
33. Stubbs, "ASEAN Plus Three", p. 443.
34. "South Korea, Singapore to Discuss Free Trade Deal", *Yonhap*, 3 September 2003, United States Foreign Broadcast Information Service (FBIS), FBIS-LAT-2003-0903.
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36. It is also worthwhile to note that despite increasing competition in those similar sectors as a result of the ASEAN-China FTA, there is still some complementarity in terms of product categories between ASEAN and China. This complementarity in product categories between ASEAN and China can be found not only in some manufacturing sectors (electronics, for example), but also in the agricultural and natural resource sectors. It is in this sense that the ASEAN-China FTA will benefit both in those complementary areas while producing increasing competition in sectors with similar product categories.
37. Feng, "China and ASEAN can Share the Prosperity Together", pp. 5–6.
38. Hatakeyama Moboru, "A Short History of Japan's Movement to FTAs (Part 3)", *Journal of Japanese Trade and Industry* (March/April 2003).

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Contemporary Southeast Asia 25, no. 3 (2003): 405–30 ISSN 0219-797X

The Chinese (Broken) U-shaped Line in the South China Sea: Points, Lines, and Zones

PETER KIEN-HONG YU

This article analyses the positive and negative aspects of the Chinese U-shaped line (maritime boundary) in the South China Sea as well as certain points of interest that are more ambivalent. Positive aspects of the line include the observation that the line is not an attempt by both Taipei and Beijing to absorb international boundaries within a national framework. Negative aspects of the line include the burden it creates on the Chinese navy. It also addresses questions such as the nature of the relationship between the U-shaped line and Chinese Communist Exclusive Economic Zones, arguing that the non-contradictory relationship must be seen as a form of double insurance that both Taipei and Beijing are investing in.

Introduction

Since the emergence of international law in relation to land, air(space), and sea, points (or dots, *dian*), lines (*xian*), and zones (or planes, *mian* or *qu*), both real and imagined, have become of vital importance. The relation of points, lines, and zones is governed by the laws of geometry: two connected points make one line, at least two points are needed to draw a line, and a minimum of one line is required to form a zone.

In legal maritime parlance, points can be labelled basepoints or trijunction points (among other things). The description of lines is quite complex, ranging from the general: baselines, straight lines, agreed closing lines,[1] and thalweg lines (imaginary lines along the deepest part

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of the main channel of, for example, a river); to the specific: for example, the Green Line separating East and West Beirut in Lebanon, or the Mogadishu Line (in existence since early 1993), or the Attila Line dividing the Turkish Cypriot Zone in the north of Cyprus Island from the southern Greek Cypriot Zone, or the unilateral North Limit Line between North and South Koreas, or the Line of Control in disputed Kashmir (between India and Pakistan). Lines can also become maritime zones of one kind or another: the coastal zone, for example, which is not defined in the April 1982 United Nations Third Convention on the Law of the Sea (hereinafter 1982 Law of the Sea) and which suggests that the 1982 Law of the Sea has ambiguities and legal loopholes.

This article focuses on the Chinese (broken) U-shaped line. This line is the traditional Chinese maritime boundary in the South China Sea (SCS), the fifth largest body of water on earth, and it intersects waters off four Southeast Asian countries. The first section discusses the positive and negative aspects of this line, while considering some other points of interest that are more ambivalent. The second section examines the relationship between the U-shaped line and other maritime concepts.

It should be noted at the outset that this author is of the view that, due to the lack of an effective form of world government, which could enforce international law and punish culprits, politics of one kind or another dominates in the international arena. War may also follow political struggle. Many experts in international law concede that *political* will, among other things, is necessary to resolve legal disputes at sea, especially in view of the fact that there has been no consistent pattern of human behaviour in this area. It can, therefore, be argued that it is generally brute (political and/or military) force, not international law, which determines the fate of points, lines, and zones at sea; and that this will be the case for at least the next few decades.[2] A good example of this is what is happening to Huangyan Dao (also known as Democracy or Scarborough Island), which is part of the Zhongsha Island Group (Macclesfield Bank).[3] Until recently, the fate of this island has been immaterial to most Chinese and foreign experts, because (as Chiu Hungdah observes) the Zhongsha is submerged and, therefore, according to international law, both Taiwan and mainland China cannot say that they possess it.[4] Nevertheless, in what can be described as an act of gerrymandering, Beijing has laid claim to Huangyan Dao, incorporating it as part of the Zhongsha Island Group. This act can, from the Chinese point of view, be compared with the appropriation of Hawaii by the United States. The example of Huangyan Dao, must, however, be seen in the context of the Chinese (broken) U-shaped line, which will be discussed in detail below.

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The U-shaped Line

I shall begin by discussing the genesis[5] of the U-shaped line, which was first delineated by Hu Jinjie, a Chinese cartographer, in December 1914, after the Republic of China's recovery, in October 1909 (according to the Chinese lunar calendar), of the Dongsha (or Pratas) Island Group from Imperial Japan. Chinese maps published subsequently during the 1920s and 1930s relied on Hu in this area.[6]

The U-shaped line was officially drawn in the SCS in December 1947 by Bai Meichu, an official of what was then the Republic of China.[7] Areas within the line were claimed as historic waters. Bai's reasons for drawing the line as he did are not altogether clear, although a similar line does appear in *New China's Construction Atlas,* which he edited, in the mid-1930s.[8] It is also unclear as to whether he had full knowledge of international maritime law at the time he drew the line. It is quite probable, however, that he was prompted by a primordial possessive instinct (that, as the adage goes, views possession as nine-tenths of the law). Indeed, Bai notes the French occupation (from July 1933) of six islands in the Nansha (or Spratly) Island Group in the South China Sea (SCS), and states that or arguably felt that Chinese sovereignty must somehow be protected.[9] The June 1887 Treaty between the Chinese Qing Dynasty and France dividing the Gulf of Beibu (or Tonkin; which extends south beyond the Gulf to include all the islands of the SCS) may also have influenced Bai's desire to protect Chinese sovereignty.[10] Nonetheless, Bai only makes mention of the Nansha Island Group in his atlas or the official Republic of China map and does not explicitly refer to any animate or inanimate resources within that line. Neither does he refer to the airspace above the U-shaped Chinese maritime zone.

Bai may well have been concerned for Chinese sovereignty, but it is also possible to draw on history and culture to explain the nature of the line he drew. The Chinese (until recent decades) have tended towards a continental, self-contained mentality, and, thus, have a fondness for building "walls" to surround themselves.[11] The building of walls is generally a defensive measure undertaken to ensure peace of mind, as the Chinese, while certainly no strangers to internal fights, have generally been friendly to foreigners.[12] I shall elaborate on the place of walls in Chinese culture below.

The most intimate example of the wall occurs at the personal or family level. An excellent instance of this is the *siheyuan* (a courtyard with houses on four sides to form a quadrangle) of the Ming and Qing Dynasties.[13] An obvious example at the national level is the Great Wall. Harry Ying Cheng Kiang describes the Great Wall (or Willow Wall) as

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China's boundary "landmark."[14] Natural geographic formations also act as walls: mountain slopes in the east protect the strategic Zhongyuan (the central plain of China), control of which has historically ensured control of China. Likewise, the Bo Sea,[15] the Huang (or Yellow) Sea, and the Dong (or East China) Sea have served as natural barriers, preventing "barbarians" from landing on the southeast shores of mainland China. One could, therefore, see the U-shaped line in the SCS as a southern parallel to the Great Wall in the north, stretching to include the Zengmu Ansha (or James Shoal, which consists of submerged banks) as the southernmost territory of China. One could argue that the late emergence of this southern "wall" can be attributed to the fact that China has not traditionally considered itself a maritime power and to the lack of threats from the south until the Industrial Revolution and European colonial expansion.

It is worth observing at this point that China's official delineation of the U-shaped line in the SCS was a pre-emptive act, entered into to guard against future uncertainties, and, furthermore, entered into before any other national entity (the British Empire included) had sought to decisively deal with issues of sovereignty in the SCS. Not a single national or political entity made any diplomatic protest at the time it was drawn. The U-shaped line, therefore, has a status that is arguably better than simply that of a Chinese "claim," and, in fact, delineates sovereignty with all its implications of ownership for both Taiwan and mainland China.

Certain countries have, however, begun to challenge both Taiwan's and China's ownership of the SCS. This ownership is expressed in terms of contiguous zones, exclusive economic zones (EEZs) (and associated exclusive fishing zones), and continental shelves, etc. Only since this has started have some scholars begun to refer to the U-shaped line as merely a Chinese *claim* or an areal *claim*.[16] It is in light of these challenges that I shall extend my discussion of the U-shaped wall with respect to the points of view of both Taiwan and China.

Positive Aspects of the Line

There are several positive aspects of the line which strengthen Taiwan's and China's arguments. First, it must be understood that the U-shaped line is not a Chinese attempt to absorb international boundaries within a national framework.[17] The Chinese people are not interested in creating a maritime hegemony.[18] While it is true that China established a "South Sea Marine Surveillance Force" in May 2000, the purpose of this naval force is to safeguard Chinese interests and to identify marine and aquatic resources in the SCS. In November 2002, China signed an

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agreement amounting to a code of conduct with ten Southeast Asian countries aimed at preventing an escalation of tensions over the Nansha Island Group in the SCS. Later in June 2003, Beijing signed the Treaty of Amity and Cooperation in Southeast Asia, a dispute procedure created by the Association of Southeast Asian Nations (ASEAN) in February 1976, thereby agreeing not to "participate in any activity which shall constitute a threat to the political and economic stability, sovereignty, or territorial integrity" of other signatory states. In connection with this, it should be noted that no other countries had first laid claim to a large portion of the SCS and that the state-centric closed sea thesis appeared first in Europe, before the U-shaped line was drawn.

Second, the U-shaped line plays an important role in relations across the Taiwan Strait. As Oran R. Young has noted, " ... the enclosure movement that has arisen in connection with marine areas during the postwar era makes it clear that zonal arrangements remain highly attractive in international society."[19] The potential attractiveness of zonal arrangements within (and including) the U-shaped line between China and Taiwan serves as an important bargaining chip (or exchange function) on the negotiation table.

At this point, it is worth considering some other sources that weigh in favour of the U-shaped line. For instance, a number of judicial cases decided by the International Court of Justice (ICJ) in the early 1950s and in the early 1990s have supported the existence of historic waters (which, to China is akin to the concept of "internal waters").[20] Non-Chinese scholars such as Park Choon-ho[21] and Iain Scobbie, and possibly Greg Austin,[22] are sympathetic to the idea of a U-shaped line. Others, like Mark J. Valencia, are less in favour of it. Valencia, for example, proposed the establishment of a Spratly Authority and hoped that Beijing (and Taipei) would give up the line in exchange for owning 51 per cent of the Authority. He also, however, discussed the PRC concession, in May 1992, to the Crestone Energy Corporation for the exploration of crude oil between the Wanan Tan (or Vanguard Bank) and the Guangya Tan (or Prince of Wales Bank), and makes the point that these banks, 160 nautical miles off Vietnam's coast, cannot each support EEZs of their own, which is arguably an indirect admission that the U-shaped line may be useful.[23]

The third point to be made about the positive aspects of the U-shaped line is that it is relatively arms-free, unlike the bristling Maginot Line, which can serve as a useful counter-analogy to the U-shaped line.[24] The purpose of the Maginot Line was to prevent a German invasion of French Alsace-Lorraine. Built within a few kilometers of (pre-) Nazi Germany's border, the Maginot Line was, as

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Anthony Kemp tells us, deemed "the greatest system of permanent fortification ever built, and probably the last". It consisted of initial lines designed to delay the enemy, main lines fronted by continuous anti-tank and personnel obstacles, and a final line of defence in the rear.[25] The Maginot with its motto, "None Shall Pass," is famous as a symbol of French resolve (and of its spectacular failure).[26] This "French resolve" certainly does not apply to the SCS. The U-shaped line signifies ownership by both Taipei and Beijing of the living and non-living resources within it, with the implication that others must seek permission from China before tapping into the resources; it is certainly not "the Great Wall of [I]ntimidation."[27]

Negative Aspects of the Line

The U-shaped line's very lack of solidity also has its drawbacks, especially from the proponents' point of view. Geographically, there are "breathing spaces" or "entrances" between the nine segments of the line (according to the Chinese version) or within the dotted line (the Taiwanese version), through which naval and non-naval ships can pass without hindrance. In other words, the U-shaped line is not a solid line nor a physical wall, such as the now dilapidated Maginot Line or even the Berlin Wall, the latter composed of "concrete, barbed wire, watchtowers, mines, machine-gun traps and patrol routes for border guards and dogs."[28] While it is true that geological processes (e.g. the sudden emergence of islands, or natural accretion) could eventually fill some of the gaps, in the meantime, blocking the gaps has become a somewhat troublesome issue for the Chinese. Possible strategies have included the establishment of new exclusion zones (possibly in the form of marine-protection centres) in between the segments.[29]

Strategies used in the past have included the setting up of military zones by China in the East China Sea; and (excluding a few minor skirmishes between other parties), that Taipei was the first to use force to dislodge Philippine settlers (including Tomas Cloma and his followers) from Taiping (or Itu Aba) Island in the early 1960s (or possibly the mid-1950s).[30] The use of force by the Chinese thus cannot be ruled out, particularly as the Chinese view a great portion of the SCS as "the Chinese Lake", something akin to internal waters. The U-shaped line has bearings not only on the SCS but upon the East China Sea as well, because, as some scholars and experts point out, "[i]t is difficult to define sea with great precision, except for those seas that are virtually enclosed ..."[31] Sang-Myon Rhee and James MacAulay, for instance, state that the SCS "is commonly regarded as 'belonging' to

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Southeast Asia."[32] In an extreme scenario, both sides across the Taiwan Strait could move to foreclose these differences by suddenly announcing the closure of gaps in the U-shaped line and the creation of a more solid boundary that would do away with ambivalence.[33]

Indeed, while the most extreme scenario has not been realized, technical changes have been made to the line in the past. This type of change is not uncommon, neither is it restricted to the Chinese. In the SCS, Manila has been involved in redrawing map boundaries.[34] Further afield, the former Soviet Union has argued vis-à-vis Norway over the Barents Sea, citing "special circumstances" in favour of the boundary being a sector line (i.e., a line of longitude) running from the terminus of the existing boundary in Varangerfjord towards the North Pole, but modified in an easterly direction in the Svalbard area, to avoid cutting through the area as defined in Article 1 of the 1920 Svalbard Treaty.[35] Closer to home, technical changes to boundaries have included traffic separation schemes installed by coastal states in the Straits of Malacca.[36] Even non-governmental organizations like the Council for Security Cooperation in the Asia Pacific at the track two or unofficial level have produced guidelines for regional maritime cooperation.

The measures that Beijing will take to address the issue of the gaps in the line will depend upon their assessment of possible consequences. Beijing is fully aware that the United States will protest if the passage of American ships and aircraft and those of its allies and friends are hindered. Possible future strategies could include the setting up of "toll booths" (by both Beijing and Taipei) in the gaps, or, in a less threatening scenario, marine parks or marine playgrounds.[37] Artificial islands or scientific installations could also be set up. Possible justifications for these measures could include the argument that vessel-source pollution like oil slicks or spills within the U-shaped line need to be checked and reduced by measures that would include the imposition of monetary penalties.[38]

Second, while the U-shaped line has given Taiwan and China rights (and privileges), it has also created responsibilities that are sometimes a source of stress or burden, particularly since May 1987 when China planted its flag for the first time in one of the Nansha islands, which meant that the mainland has the major responsibility to defend Chinese sovereignty. China's responsibility has recently increased, when (from February 2000) Taiwan's Coast Guard Command [as opposed to the Ministry of National Defense] was to only guard Taiping Dao, leaving the main burden of defending the Nansha Island Group in the hands of Beijing. The situation has not been helped by certain non-Chinese scholars and experts who, since April 1992,

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following the collapse of the Soviet Union, have promulgated the view that there is a "China threat."[39] Such observers, who seem to forget that it is Vietnam that has constructed artificial islands on Wumie (Pigeon or Tennent) Reef,[40] fear that an aggressive and expansionist China will fire the first shot in the SCS.[41] This is in spite of the fact that China has pledged to put aside the dispute and has made assurances that it will engage in joint development for the common good. Furthermore, "China threat" exponents seem to overlook material such as the Code of Conduct signed between China and the Philippines in August 1995, which (in Article 2) states that the two parties must undertake efforts to refrain from using force or the threat of force to resolve disputes. When there was an expansion of construction of Chinese fishermen's concrete structures from October 1998 to February 1999 (which could allow the placement of naval and possibly air forces) and, in February 1995, when markers were placed at Meiji Jiao (Mischief Reef), some analysts accused the Chinese of creeping military encroachment, in spite of the fact that Manila was informed ahead of time;[42] which is quite apart from the logistical difficulties the PLA would have supporting a large number of troops in the area. For example, it is doubtful that there would be enough desalinated water to form an uninterrupted supply from Hainan Province to islands occupied by the PLA. As for the so-called Chinese "aggressiveness", analysts ought also to consider the fact that Beijing has never tried to stop the naval exercises conducted in June 1983 and April 1999, involving Australia, New Zealand, the United Kingdom, Singapore and Malaysia under the Five-Power Defence Arrangement, which is "a loose defence agreement that commits Australia, New Zealand and the United Kingdom to 'consult' together if Singapore or Malaysia are attacked and to decide measures to be taken, either jointly or separately."[43] In real power terms, it is also arguable that Beijing could not exercise a veto on these military exercises.

The third negative aspect of the U-shaped line involves the issue of how the territory within it would be divided between Taiwan and mainland China, depending on whether they agree to form a confederacy (with Chinese characteristics), as advocated by some,[44] or to treat the relationship between them as "(special) state to state" (as put forward in July 1999), or under the terms of declarations such as "there is one country on each side of the Taiwan Strait" (put forward in August 2002 by Taipei). Neither side across the Taiwan Strait has declared the geographical coordinates of their precise portion of ownership (which is probably just as well as they are likely to contradict each other).

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Other Points of Interest

Andrew J. Nathan and Robert S. Ross observe that the Chinese "Great Wall is a symbol of weakness, because it signals susceptibility to invasion, and of strength, because it represents economic and cultural superiority and an ability to ward off invasion with feats of engineering and vigilance."[45] This same ambivalence applies to the U-shaped line and informs the manner in which psychological "lines in the sand" are drawn, as Cossa writes: " ... While all parties no doubt have in mind certain "lines in the sand" which should not be crossed, most lines are not clearly defined. While some strategic ambiguity as to possible responses to hostile acts may be useful, tactical ambiguity regarding what constitutes sufficient provocation could prove fatal. More candid dialogue is required ..."[46] Cossa also tells us that "[s]ome ASEAN security specialists even talk openly about taking a hard line approach toward Beijing, to include being prepared to meet force with force."[47] Scholars such as Kemp, however, remind us that there are always two lines in existence: the real line and the propaganda line.[48] It is, therefore, quite possible that the Chinese baselines and the lines associated with them are real, whereas the U-shaped line exists mainly for domestic Chinese consumption, particularly to pacify some hardliners.

Second, there are no fixed geographical coordinates for the U-shaped line, except at the 4-degree north latitude. This gives the Chinese some leeway. They could decide to reduce the area included in the U-shaped zone, which would pacify concerns about the Chinese threat held by other claimants. On the other hand, Taiwan and/or mainland China could choose to dilate the line, taking advantage of " ... the vagueness and generality of the rules of international law relating to maritime boundary delimitation" which means that "international law does not prescribe with anything approaching precision where the boundary should lie."[49] If this happened, we can be sure that many Southeast Asian countries would be alarmed, if not protest outright. With regards to reduction and extensions of the line, it is worth remembering that two segments of the original eleven in the U-shaped line have been dropped by the PRC in the Gulf of Beibu when they were disputed.[50] If Taiwan and/or mainland China sought to extend the line, they could choose to end or stop at other Chinese provinces, such as Zhejiang Province, instead of ending or stopping at Yilan County, Taiwan Province. Likewise, both sides of the Taiwan Strait could include or cut a few segments near Zengmuansha to make the U-shaped line look different.

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Third, neither Taiwan, which did not have a chance to sign it, nor mainland China, has been able, to date, to fulfil all their obligations under the 1982 Law of the Sea. This Law (when in force) reduced the area allocated as "high seas" by some 40 per cent,[51] increasing the area allocated to coastal nations, but creating burdensome operational requirements and financial obligations.[52] Many countries have failed to meet these obligations. For example, both Taiwan and mainland China have been unable to patrol the SCS for twenty-four hours a day (although they have been able to use satellites to monitor movements at sea).

Fourth, the waters demarcated by the U-shaped line are relatively underpopulated. Indeed, when the line first appeared, it could well have been described as an "empty fortress."[53] The population within this "empty fortress" has grown very slowly. After World War II, the Taiwanese Navy deployed some marines on Taiping Dao. It was not until several decades later, in August 1988, that Chinese marines built a headquarters, command centre, and oceanographic observation post on Yongshu Jiao (Fiery Cross or N.W. Investigator Reef). Earlier that year (in May), China had also set up observation posts, all at low-tide elevations, on Chiqua Jiao (Johnson Reef), Zhubi Jiao (or Subi Reef), and Meiji Reef (the latter is bigger than the fortress on Yongshu Reef).[54] Despite all this recent activity, the Chinese military presence in the SCS is still very limited and Beijing has made it clear that Meiji Reef will not be used for military purposes.[55] The situation can be likened to the Manila experience in the 1990s when Taipei requested two sealane passages from Manila to enable its fishing vessels to shorten their voyage to the SCS. The passages in question are, according to Meliton Juanico, clearly within the Philippine's territorial waters, whether one applies baselines, the archipelago theory, or the 1982 Law of the Sea. In other words, Manila maintains that it has complete sovereignty (not simply jurisdiction) over the passages. Yet, a Philippine academic could not understand why the Philippines ought to allow Taiwanese fishermen to pass through its territorial waters.[56]

The Relationship between the U-shaped Line and Other Maritime Concepts

This section addresses the relationship between the Chinese U-shaped line and other maritime concepts by elaborating on points, lines, and zones. Viewed from above (either from the air or from outer space), islands and even archipelagos appear as points or dots. Some researchers even refer to the islands, islets, reefs, atolls, and cays in the SCS as "flyspecks". Lines are formed by connecting points. The most useful

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lines to bear in mind in relation to this discussion are baselines and maritime boundary lines (such as the one in the Gulf of Beibu). The concept of zones (which demarcate areas within lines) is especially relevant in relation to the division of the sea, with all of the following coming into play: military or security (boundary) zones; defence sea area zones;[57] dumping grounds for explosives; demersal fishing grounds; neutral zones; protected zones;[58] prospecting zones;[59] grey zones;[60] buffer zones;[61] safety zones;[62] safety fairways;[63] Quarantine Anchorage Zones;[64] Demilitarized, Nuclear Weapons Free Zones; Zones of Peace, Freedom and Neutrality; Maritime Exclusion Zones;[65] and Common Maritime Zones;[66] to mention a few. To repeat an analogy used before, the lines surrounding these zones (whether they be EEZs or contiguous areas) can be regarded as other walls.[67]

In May 1996, China ratified the 1982 Law of the Sea and declared its straight baselines in areas such as the Xisha (or Paracel) Island Group,[68] with the knowledge that "... the political sensitivity of several boundary-related issues at the [1982 Law of Sea Convention] forced the delegations in several contexts to accept flexibility at the cost of certainty."[69] Four years previous to this ratification, the National People's Congress (NPC) had enacted a "Law of the PRC on the Territorial Waters and Their Contiguous Areas (Zones)" and, two years later, in June 1998, it promulgated a "Law of the PRC on the EEZ and the Continental Shelf". These actions signalled the possibility that baselines would also be (re)drawn in the Nansha Island Group. Thus, in February 1999, Taiwan made its baselines with reference to Huangyan Dao known, and it has deposited the relevant maps and coordinates with the United Nations. One cannot help but wonder, however, what the reasons could be for China's (re)drawing of the baselines when the U-shaped line is already in existence.[70]

One of the main reasons for the Chinese interest in baselines is the uncertainty created by the failure of the 1982 Law of the Sea to resolve disputes over islands and maritime boundaries, the freedom of naval passage, as well as marine pollution (among other things). In this climate of uncertainty, Beijing, by drawing baselines as well as defending the concept of the U-shaped line, has effectively purchased a form of *double insurance* to minimize (potential) losses. To be sure, the term "double insurance" does in fact exist in marine insurance.[71] If one insurance policy fails, the other may come in useful, particularly in relation to the "flexible oceans policy" put forward by 1982 Law of the Sea.[72]

Another reason for the Chinese interest in baselines is perhaps best illuminated with reference to a different line. From February to

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July 1945, the Oder-Neisse (Rivers) Line, instituted by Franklin Roosevelt, Winston Churchill, and Joseph Stalin at Yalta, delineated the German Eastern Territories to be under the Polish administration after the end of World War II. It has been described as a "natural line of security"[73] after World War II and was also a form of compensation to the Soviet Union for its efforts against Nazi Germany.[74] By comparison, the institutionalization of baselines serves as compensation for what Taiwan and the mainland have lost within the U-shaped line over the past few decades. It is also a signal that the Chinese will be very tough in defending their national interest within areas such as the Chinese EEZs.

These reasons aside, it is worth pointing out that the Chinese announcement of the position of its baselines in the SCS does amount to a temporary "retreat" on the Chinese side, particularly because they have been unable, to date, to fully convince other Southeast Asian claimants that what is included within that U-shaped line belongs to both sides of the Taiwan Strait. The Chinese are certainly aware that "[b]oundary disputes always profit lawyers; usually profit surveyors; never profit the owners"[75] and they will not go to court unless absolutely necessary. This is not to say that there has not been provocation. Some claimants have deliberately refused to recognize Chinese rights within the U-shaped line, as they can argue that (as Prescott tells us) that, "[t]here are ten potential bilateral boundaries around the margins of the [SCS] but only five of these have been drawn and none is complete."[76] One such claimant is Vietnam (which normalized relations with China in November 1991). Before the fall of Saigon in April 1975, Hanoi had recognized Chinese sovereignty, for example, over the Nansha Island Group. After taking South Vietnam, however, their position changed dramatically. In late 1975, a new territorial map of the reunited North and South Vietnam was released which included (for the first time) the Nansha and Xisha Island Groups.[77] Others have used the 1982 Law of the Sea to try to wrest concessions from both Taiwan and mainland China.[78]

To set the Chinese position on the U-shaped line in context, and to counter accusations that mainland China is expansionist, some examples of the behaviour of other political entities or countries that might similarly be labelled expansionist need to be considered. First, is the struggle between the *mare clausum* (closed sea) thesis, as advocated by John Selden, and the *mare liberum* (open sea) thesis, as supported by Hugo Grotius. The latter eventually prevailed, but not without significant concessions to the former in the form of rights to coastal waters, as Johnston writes, by the late 18th century, "most of

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the Western world, and all of the dominant powers, had agreed to treat special or exclusive rights in coastal waters as a matter of national entitlement, derived from the concept of sovereignty and justified by the legal fiction of territoriality."[79]

The second example has to do with baselines, many of which are not properly drawn or, at least, unilaterally drawn. Vietnam, for instance, drew a baseline, which Thailand objected to, that was straight except in areas adjacent to the Cambodian and Chinese coastlines.[80]

The American position on the SCS can be used as the third example. In May 1995, the U.S. State Department made a repeat declaration of an official statement on the Nansha Island Group which states that Washington would "view with serious concern any maritime claim, or restriction on maritime activity, in the [SCS] that was not consistent with international law, including the 1982 Law of the Sea."[81] It is interesting that the United States mentions both international law and the 1982 Law of the Sea, because it seems remarkably like a double insurance claim made for the purpose of preserving the United States' national interest, particularly as the 1982 Law of the Sea does not cover the issue of sovereignty.[82] One could also say, as indeed a ranking official of the Kuomintang in Taiwan has, that the United States may well regard the Pacific Ocean as an "American Lake."[83]

The fourth example has to do with the Malaysian *Peta Baru* (new map) published in December 1979. This *Peta Baru* did not include a drawing of the Malaysian EEZ, partly in anticipation that baselines may have to be adjusted after the 1982 Law of the Sea Conference.[84] Kuala Lumpur's failure, however, to indicate its EEZ coordinates on the map was also a deliberate act prompted by the knowledge that other countries would object to the location of their coordinates.[85] Kuala Lumpur's omission of its EEZ coordinates is clearly an act to preserve national interest, particularly if one considers the fact that in December 1984 Malaysia passed a law concerning its EEZ to the effect that (in the absence of protests from other countries) its judges can use EEZ law to try foreign fishing vessels caught within the Malaysian EEZ.[86]

If the concept of double insurance does not appeal, one can think in terms of the ICJ ruling on the existence of formal and informal, or de jure and de facto, lines at sea.[87] The U-shaped line could be viewed by non-Chinese as informal or de facto, and the various baselines, as formal or de jure. As an extension of this argument, an island in the SCS may be considered to be located within Chinese historic waters, but not within its EEZ. If, therefore, in its negotiations with other Southeast Asian disputants over an island Taiwan and/or mainland

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China do not mention (for example) the continental shelf, it is because it is thinking of that island in terms of its place in historic waters within the U-shaped line.

The relationship between baselines (as one example of a form of ownership) and the U-shaped line can also be viewed simply in terms of the flexibility it gives both sides of the Taiwan Strait in its dealings with other potential claimants. Presumably, when circumstances are favourable, China will be forthright on the subject of the U-shaped line, and, when it is politically and/or militarily weak, it will keep silent. As an example of the policy flexibility this allows, China ordered its fishermen not to fish in the SCS for two months from June 1 to July 31 of each year, starting 1999,[88] but at the same time it refused to capitulate to Manila's demands not to build any more "structures" in the SCS.[89] It should be noted, however, that silence on the U-shaped line does not mean that Taiwan and China have given it up. (In passing, it should be pointed out that both Taiwan and China have not talked much about the boundary in the atmosphere, which is coextensive with land boundaries. The question of the altitude at which airspace ceases has never been addressed by either side.[90]) The difficulty of officially "giving up" the U-shaped line must also be borne in mind. In terms of legislature, three-fourths of Taiwan's National Assembly (NA) members are required to approve for the country to rescind its ownership of the line. This would be difficult to achieve in Taiwan today, because the NA's power shifted to the Legislative *Yuan* in May 2003. To be sure, the latter is facing the same problem as the former. That is to say, the pro-government political parties do not enjoy a three-fourths majority. By the same token, China's National People's Congress (NPC) would have to go through similar motions in order to rescind the line. It is quite conceivable that the Communist Party may (as a political ploy) ask some NPC members to raise the issue of rescinding the line, with no intention of ever approving such a move.

Finally, some comments on the subject of historic waters and encroachment are in order. The U-shaped line delineates a Chinese zone and waters within the zone termed "historic waters". Chinese publications have accused other claimants of encroachment upon these waters. The following estimates of encroached areas have been given: Vietnam, 1,170,000 square kilometers (sq. km.); the Philippines, 620,000 sq. km.; Malaysia, 170,000 sq. km.; Brunei, 50,000 sq. km., and Indonesia, 35,000 sq. km.[91] It is true that the concept of "historic waters" was not discussed in the 1982 Law of the Sea. The term first surfaced, however, in an UN memorandum in the late 1950s. What that effectively means is that one can possess historic waters so long as no other countries

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object.[92] Clearly, this lack of objection is not present in relation to the Chinese historic waters in the SCS. It must be said, however, that Vietnam and the Philippines claim to possess historic waters. (In passing, one should note that the Vietnamese historic waters in the Gulf of Beibu were declared in the early 1980s via Vietnam's Statement on the Territorial Sea Baseline,[93] which begs the question of whether these waters can be considered "historic" at all). If they thus refuse to recognize the Chinese historic waters, what right have they to demand that the Chinese recognize their historic waters? How many countries would have to object in order to annul Chinese rights to historic waters? Certain experts, such as Hasjim Djalal (Ambassador at Large for Law of the Sea and Marine Affairs of Indonesia) and B.A. Hamzah (former Director-General of the Maritime Institute of Malaysia) also oppose Chinese rights to historic waters.[94]

Manila and Kuala Lumpur have their own quarrels as well: for instance, Manila questions Kuala Lumpur's treatment of a Philippine treaty with United States and Great Britain dealing with the boundary between the Philippines and Malaysia. The Malaysians say this line is merely a line of demarcation and, therefore, not the boundary line. This line indicates which islands or nuggets of the SCS belong to either Manila or Kuala Lumpur but it is worth noting that it has nothing to do with (a) the waters, (b) the continental shelves, and (c) other territories.[95] With regard to the SCS, the U.S. State Department "takes no position on the legal merits of the competing claims to sovereignty over the various islands, reefs, atolls and cays in the [SCS]".[96] It makes no mention of Chinese historic waters. When Manila sought American help in settling the Nansha Island Group dispute, Washington still "generally maintained a policy of neutrality, the reason being that the U.S.-Philippine Mutual Defence Treaty does not automatically cover the [Nansha Island Group since it is a] disputed territory which [was] not even claimed by Manila until after the Treaty was signed [in August 1951]" and, more importantly, because China had not directly invaded the Philippines.[97] In short, it is arguable that the United States does not view the Chinese U-shaped line as excessive.[98] In connection with this, it is worth remembering the United States reaction in October 1973 when the Libyan Arab Republic unilaterally proclaimed the Gulf of Sirte *Closing* Line. This was quickly challenged (diplomatically) by the United States and followed by military action.[99] It seems quite plausible that Washington (with all its vested interests) does not object to the existence of a "Chinese Lake", as long as everything runs peacefully for its merchant and non-merchant ships.

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Conclusion

In the late 1970s, the PRC began to open itself up to world trade and commerce. This process was accelerated after Deng Xiaoping's inspection tour of southern mainland China in January and February 1992. Starting 1993, China became a net importer of crude oil, because it became cheaper to buy oil from overseas as the country's demand for oil exceeded what it could economically supply. Already in 1999, China imported 20 per cent of its crude oil (and related products).[100] It is quite possible that China's biggest and most strategic internal oil supply — the Daqing Oilfield — could be dried up by now.[101] In connection with this, there are predictions that, by 2005, oil consumption in Asia will surpass that of North America.[102] Coupled with this increased consumption could be an increase in oil prices, especially if the Organization of Petroleum Exporting Countries (OPEC) continues to periodically cut world output by two million barrels per day.[103] Despite this possibility, it is highly unlikely that China's levels of foreign trade and commerce will decrease, especially since its accession to the World Trade Organization in December 2001.

In order to continue to increase its production of export goods and services, China will have to consume more oil and it is this demand that makes the SCS so strategically important. Thus, in August 2003, while in Manila, a ranking PRC official, Wu Bangguo, said that the mainland can develop the Nansha oilfields with other countries. The Philippines could possibly be first on this list for joint development. Even if Beijing were to succeed in securing oil supplies in the SCS by driving all foreign troops out, defending the Nansha Island Group and protecting its oil and gas development projects from foreign military harassment and/or sabotage would be enormously difficult. This is the dilemma that mainland China is currently caught in and, therefore, it is not expected that it will say much about the U-shaped line in the decades to come.[104] Given the opportunity, however, it will probably stress that the East Greenland case is favourable to the Chinese position, as pointed out in the Scobbie paper. It is true that it is possible to eliminate walls, as the breach of the Berlin Wall in November 1989 shows. Beijing will not, however, strike out the U-shaped line, unless compelled to by the international community after a military defeat. Taipei's position is similar although it is likely to keep a low profile on the line, so as not to irritate Southeast Asian countries. As for Taipei and Beijing's position on the SCS vis-à-vis one another, Fu Kuen-chen informs us that geographic coordinates publicized by both countries neither contradict nor are inconsistent with each other.[105] This indicates that both sides of the Taiwan Strait will cooperate with one another in

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the SCS in the long run and are likely to coordinate in terms of policy, particularly once a consensus has been reached on how to properly handle their special relationship at home and abroad.

When sovereignty, however, is at issue and areas such as baselines and EEZs are under threat, we can expect both China and Taiwan to stand firm. Nationalism and the sentiments associated with it will be invoked to shore up defence. This does not mean that the PRC wishes to be perceived as a bully. Indeed, as the following statement, made in August 1990 in Singapore, by its former Prime Minister Li Peng indicates, mainland China is keen to be seen as a willing team player: "China is ready to join efforts with Southeast Asian countries to develop the [Nansha] islands while putting aside for the time being the dispute (*gezhizhengyi gongtongkaifa*)."[106] In order to facilitate this, the mainland and Taiwan may have to make an interim designation of certain sea lanes as "high seas corridors" within the U-shaped line. Japan, the Republic of Korea, and Finland have already led by example, choosing to reduce their territorial seas from 12 miles to 3 to avoid transit passage issues.[107] Another possibility could be to imitate the Peruvian "maritime domain" — which expressly recognizes freedoms of navigation and overflight. Waters not contained within areas such as EEZs or contiguous zones could be included in such a "maritime domain" in the SCS.[108] To put it differently, such waters could constitute a *sui generis* zone for a period of time. These cooperative possibilities are quite the opposite of what some have called the (potential) "Tibetization" of the SCS.[109]

The growth of literature on boundary-making takes the final quarter of the 19th century as its starting point and this article can be seen as simply adding to a growing body of work.[110] Valencia, in *Malaysia and the Law of the Sea*, makes his dedication to the children of Malaysia, whom he says will suffer if Kuala Lumpur does not manage its maritime affairs wisely.[111] I would like to appropriate this sentiment for the Chinese people on both sides of the Taiwan Strait. We need to manage our maritime affairs wisely. So long as other disputants hold on to what they occupy, it is inconceivable that Taiwan and mainland China will relinquish their hold on the U-shaped line in the foreseeable future. Quite apart from questions of national interest, such an act would open up a veritable Pandora's Box as various countries scramble to fill the vacuum and lay claim to natural resources.

It has taken some 15 years for 119 nation-states to become signatories to the 1982 Law of the Sea. Any such convention on the SCS is likely to take just as long, if not longer, both to proceed and to come up with a new arrangement. There was no discussion of the

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U-shaped line at the 1982 Law of the Sea Convention, but this could have been related to procedural and other defects, which intervened despite the existence of 66 different "Rules of Procedure" which have been in place since July 1974.[112] Even if discussion on the U-shaped line had been mooted, the PRC delegates would most likely have tried to shelve it, because of fears that it would be out-voted in the sea of foreign delegates. Fortunately, no maritime power has, to date, forced the Chinese to abandon their U-shaped line. As the Chinese have not lost anything substantial, irredentism is an unnecessary step, which is quite unlike the situation involving Argentina with respect to the Malvinas/Falkland Islands whose people have only been able to revisit the islands in August 1999 after a 17-year stand-off.[113] Instead, it is most likely that the Chinese will continue to take a pragmatic approach while investing heavily in their "double insurance", which means that the U-shaped line will continue to be more of a benign assertion than a threatening fortress.[114]

NOTES

1. *International Maritime Boundaries*, Vol. 1, edited by Jonathan I. Charney and Lewis M. Alexander (Dordrecht: Martinus Nijhoff Publishers, 1993), p. 763.
2. Senior Minister Lee Kuan Yew is of the view that for the next 25 years brute force, not international law, will prevail. See *Straits Times* (hereafter ST) (Singapore), 29 March 1999, p. 3. Ralph A. Cossa has pointed out that " ... military force has been used before both to enforce and expand national claims and could be employed again, possibly with far-reaching disastrous consequences." See his report, *Security Implications of Conflict in the South China Sea: Exploring Potential Triggers of Conflict* (Hawaii: Pacific Forum CSIS, March 1998), p. v. See also Bernard H. Oxman, "Political, Strategic, and Historical Considerations", in *International Maritime Boundaries*, pp. 5–40, especially pp. 30–34.
3. *The Collection of Names and Materials on the South China Sea Islands*, edited by Chen Shijian (Guangzhou: Guangdong Atlas Publishing House, 1987), p. 48.
4. The Chinese are obviously waiting for the sea level to drop, this may take place one thousand years from now. Dieter Heinzig does not include Huangyan Dao as part of the Zhongsha Island Group, as likewise the British Admiralty Chart no. 270. See Heinzig's monograph, *Disputed Islands in the South China Sea* (Hamburg, Germany: Institute of Asian Affairs, 1976), pp. 17, 47, and 57. Elizabeth Van Wie Davis also discusses the Zhongsha Island Group and Huangyan Dao separately. See her book, *China and the Law of the Sea Convention* (New York: The Edwin Mellen Press, 1995), p. 13. China says it has 6,500 islands, 70 per cent of them are situated within 10 kilometres of its coastal area and 90 per cent of them sit on the continental shelf. It also owns 180 million kinds of natural resources. See *China Times* (hereinafter CT) (Taipei), 7 May 1996, p. 3.
5. This word is appropriated from Wolfgang Wagner, *The Genesis of the Oder-Neisse Line* (Germany: Brentano-Verlag Stuttgart, 1957).
6. Zou Keyuan, "Chinese Traditional Martime Boundary Line in the South China Sea: Legal Implications for the Spratly Islands Dispute," EAI Background Brief no. 14 (Singapore), 7 May 1998, pp. 5 and 7.

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7. Huang Yi and Wei Jingfen, "The Legal Status of the South China Sea," in *Taiwan on the Move*, edited by Jeh-hang Lai and George T. Yu (Taiwan: National Central University, October 1998), p. 213. Bai was invited to Beijing in summer 1990 to explain why he drew that line as he did. At that time, he was over 80 years old and because of his old age, was unable to relate the precise reasons for his actions. He did, however express that *daoyu guishu xian* (literally the line shows which country the islands belong to). Conversation with Zou Keyuan (dated the latter half of 1998).
8. Zou, op. cit., p. 6. In January 2000, Xinhuashe (New China News Agency) reported that the first map drawn by the Chinese in October 1845 was discovered at Shijianzhuang City, Hebei Province. This world map mentioned the Nansha, Xisha, and Zhongsha island groups. Mao Zedong once said that China was unprotected at sea. This means that China is safe when foreign powers are not in a position to conduct "gunboat diplomacy", but in danger when gunboat diplomacy is possible. See *Jiefangjunbao* (hereinafter JFJB) (Beijing), 9 April 2001, p. 7.
9. Huang and Wei, op. cit., p. 213. It was only after the May 4th Movement in 1919, that Chinese intellectuals began to advocate nationalism.
10. Cossa, op. cit., p. B-1. In May 1956, South Vietnam claimed the Xisha and Nansha Islands. In August 1973, it took possession of six islands in those two island groups. On March 14, 1983, it was the Vietnamese navy which fired the first shot at unarmed Chinese scientists who were on two islands. See Liu Yuanxun, *Zhongguojundui duiwaizuozhan zhongdashilu* (Xizang: Xizang renmin chubanshe, May 2000), p. 211. According to Robert Karniol of *Jane's Defense Weekly*, "The PLA fired the first shot, and a good many more, when they decided to seize the Paracels from South Vietnamese forces in 1974. That is: They attacked when they felt the opportunity was right for a quick victory while both South Vietnam and the international community were distracted with more important issues, then presented both with a fait accompli. The fighting in the Spratlys didn't represent an attempt by either side to seize the territory, and the situation would be much different if that were the objective." (Karniol, email to author, 11 May 1999). According, however, to the September 1989 issue of *Chuanjianzhishi* (Beijing) (p. 24), in January 1974, four South Vietnamese naval vessels simultaneously fired upon PLA navel vessels. There is also an instance where there is strong evidence that the Vietnamese were not very candid. They said that the PRC destroyer no. 134 twice fired upon Vietnam's no. 505 naval ship on November 19, 1988. The PRC insists that, to the contrary, its destroyer was moored at a place in the Nansha Island Group. See *Wen Hui Pao* (hereinafter WWP), 25 November 1988, p. 2. There is also an incident when both Beijing and Hanoi accused each other of firing the first shot. See *CT*, 16 March 1988, p. 3. The April 1, 1988 issue of *People's Daily* (hereinafter PD) (Beijing) also accuses Vietnam of firing the first shot in March 1988 (p. 1). Chinese academics and experts have pointed out that, since the creation of the PRC, the country has been involved in war nine times, but that each instance of involvement was passive. See *Zhongguo Pinglun* (China Review) (Hongkong), July 1998, p. 91.
11. Bernard D. Cole, *The Great Wall at Sea* (Annapolis, MN: Naval Institute Press, 2001).
12. Douglas M. Johnston, *The Theory and History of Ocean Boundary-Making* (Kingston, Canada: McGill-Queens' University Press, 1988), p. 225. Shee Poon Kim argues that "the so-called 'China threat' is more apparent than real ..." See his article, "Is China a Threat to the Asia-Pacific Region?" in *China's Political Economy*, edited by Wang Gungwu and John Wong (Singapore: Singapore University Press and World Scientific, 1998), p. 355. For a basic understanding of the Great Wall of China, see Arthur

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Waldron, *The Great Wall of China: From History to Myth* (Cambridge, U.K.: Cambridge University Press, 1990).

13. For an understanding of *siheyuan*, see *Hong Kong Economic Journal* (hereinafter HKEJ) (Hongkong), 25 November 2000, p. 18.
14. Harry Ying Cheng Kiang, *China's Boundaries* (Lincolnwood, Ill.: The Institute of China Studies, 1984), cover page and p. 10.
15. Zou (note 6), p. 16.
16. Mark J. Valencia, *Malaysia and the Law of the Sea* (Kuala Lumpur: Institute of Strategic and International Studies, 1991), p. 62. A boundary is a line and a frontier is an areal concept. See Johnston (note 12), p. 226. Vietnam in May 1994 declared that it has found ancient relics such as 1830 coins on Son Tu Tay. It also claimed that Vietnamese had been living on Truong Sa Lon, Nam Yet, and Son Tu Tay since the 15th century. See *CT*, 26 May 1994, p. 9.
17. The idea is taken from William F.S. Miles' article, "Absorbing International Boundaries Within a National Framework: Pondicherry and the French Indian Experience", *Territory Briefing 5* (Durham, U.K.), 1993.
18. Van Wie Davis (note 4), p. 91 and p. 93. Hamzah Bin Ahmad wrote: "The expanding Soviet Pacific Fleet's combat capability has greatly perturbed Malaysian defence planners." See his book, *Malaysia's Exclusive Economic Zone* (Kuala Lumpur: Pelanduk Publications, 1988), p. 6.
19. Oran R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment* (Ithaca: Cornell University Press, 1989), p. 39.
20. Zou (note 6), p. 14. In December 1997, the International Tribunal for the Law of the Sea (ITLS), one of the principal dispute settlement mechanisms established by the April 1982 Law of the Sea, delivered its first judgement.
21. Park described the Malaysian partial occupation of the Nansha Island Group as "encroaching into the southern margin" of the SCS. See Choon-ho Park, "Central Pacific and East Asian Maritime Boundaries" in Charney and Alexander (note 2), p. 299.
22. See Iain Scobbie, "The Spratly Islands Dispute: An Alternative View", *Oil and Gas Law and Taxation Review* 14 (1996), pp. 173–83. Scobbie argued that the Chinese title over the Nansha Island Group "is to be preferred to that of Vietnam (and that of any other state)." If this is indeed the case, there could be a possibility that both mainland China and Taiwan could generate, for example, Exclusive Economic Zones (EEZs) around islands in the island group. Such EEZs would overlap with portions of Chinese historic waters within the U-shaped line. See also Greg Austin, *China's Ocean Frontier* (St. Leonards, N.S.W.: Allen & Unwin, 1998), although he seemed to take a slightly different view of things as his remarks at the conference "Human and Regional Security Around the South China Sea" held in Oslo, Norway from June 2 to 4, 2000 attest. At this point he viewed the U-shaped line as "really a good example of a particular feature of Chinese historiography." By historiography, he meant "the style of description of the events" or "... a writer's style, assumptions and purposes in piecing together the verifiable data into a narrative" with patriotism as a powerful ingredient.
23. See Mark J. Valencia, "Spratly Solution Still at Sea," *Pacific Review* (hereafter PR) 6, no. 2 (1993). See also his first version (note 16), Annex 1. See also Mark J. Valencia, J.M. van Dyke and N.A. Ludwig, *Sharing the Resources of the South China Sea* (Dordrecht: Martinus Nijhoff, 1997), p. 27.
24. The "European Wall" was mentioned by an academic in another context. See Ola Tunander, "Post-Cold War Europe: Synthesis of a Biploar Friend-Foe Structure and a Hierarchic Cosmos-Chaos Structure?" in Ola Tunander, Pavel Baev, and Victoria

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I. Einagel, *Geopolitics in Post-Wall Europe: Security, Territory and Identity* (London: Sage Publications, 1997), ch. 2.

25. Anthony Kemp, *The Maginot Line: Myth and Reality* (London: Frederick Warne, 1981), p. 9, pp. 41–2, and pp. 55–6.
26. See J.E. Kaufmann and H.W. Kaufmann, *The Maginot Line: None Shall Pass* (Westport, CONN.: Praeger, 1997). France collapsed in May 1940. The Line was put on a war footing in August 1939. France declared war on Nazi Germany in September 1939.
27. The phrase is Steven W. Mosher's. See his book, *Hegemon: China's Plan to Dominate Asia and the World* (San Francisco, CA: Encounter Books, 2000), p. 160.
28. ST, 2 May 1999, p. 11. East Germany began to build the wall in August 1961 around the then western sector of Berlin. It was 155 kilometres long. The wall came down in November 1989.
29. The idea is taken from Cossa (note 2), p. vii.
30. Ibid., p. 7. In another article, Cossa mentions the late 1950s. See *ST*, 30 November 1998, p. 28. See also *The South China Sea Disputes: Philippine Perspectives*, edited by Aileen San Pablo-Baviera (New Manila, Quezon City, Philippines: The Philippine-China Development Resource Center and the Philippine Association for Chinese Studies, 1992), p. 20. Ji Guoxing also mentions another alleged incident. See his monograph, *The Spratlys Disputes and Prospects for Settlement* (Kuala Lumpur: 1992), pp. 11–12.
31. Robin Churchill and Geir Ulfstein, *Marine Management in Disputed Areas* (London: Routledge, 1992), p. 4.
32. Sang-Myon Rhee and James MacAulay, "Ocean Boundary Issues in East Asia" in *Ocean Boundary Making*, edited by Douglas M. Johnston and Phillip M. Saunders (London: Croom Helm, 1988), p. 74. The ruling party of the Republic of China (Taiwan), several years ago, said the lower portion of Taiwan belongs to Southeast Asia.
33. See the way the line appears in Cossa's report (note 2) on p. 3. A different drawing can be found in Andrew J. Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W.W. Norton & Company, 1997), p. 114.
34. Oxman (note 2), p. 35. Manila is also redrawing its map boundaries. See *ST*, 3 March 1999, p. 24.
35. Churchill and Ulfstein (note 31), p. 63.
36. See Peter Polomka, *Ocean Politics in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 1978), pp. 223–8.
37. Singapore, Indonesia, and Malaysia are spearheading a move to create a marine playground by 2004 called "Aseanarean" which would offer activities such as cruising, fishing, and diving. See *ST*, April 20, 1999, p. 39.
38. Many merchant ships encounter difficulties at Xisha Island Group's Langhua Jiao (Reef) and Bei Jiao (North Reef). See *China Ocean News* (hereafter CON) (Beijing), 20 April 1999, p. 3.
39. MURAI Tomohide who teaches at the National Defense Academy in Yokosuka, Japan, in May 1990, in a Japanese publication, contributed a piece discussing the China threat. He may well be the first one to have publicly breached the issue. See *Yazhouzoukan* (hereinafter YZZK) 17, no. 38 (September 2003): 31. According to *Executive Intelligence Review* (hereafter EIR), think-tanks in London started this game. See its Vol. 6, no. 9 (30 September 1995) issue in Chinese, p. 17. On the other hand, *Reniminribao* (People's Daily) mentioned in an article that the "China threat" began in late 1992. Originally, those foreign observers predicted in the late 1980s

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that mainland China would collapse. See *United Daily News* (hereafter UDN) (Taipei), 23 December 1995, p. 10.

40. Victor Prescott, *The South China Sea: Limits of National Claims* (Kuala Lumpur: Maritime Institute of Malaysia, 1996), p. 40.
41. Cossa (note 2), pp. v, 6, and 10. Cossa quotes a PRC scholar as portraying the SRV "as the most likely protagonist." See p. C-4. According to Robert Karniol (based in Thailand) of *Jane's Defence Weekly*, it was the PRC which fired the first shot in the Xisha Island Group in January 1974 (Karniol email to author, May 10, 1999). On the topic of who fired the first shot, it is interesting to note that in August 2002, there were reports that the U.S. navy had fired the first shot at an Imperial Japanese mini-submarine an hour before the main Imperial Japanese attack on 7 December 1941. See <www.straitstimes.com.sg/asia/story/0,1870,140802.00.html>, dated 14 August 2002. In July 2003, South Korea and North Korea again exchanged shots.
42. Cossa (note 2), p. vi, *Lianhezaobao* (hereafter LHZB) (Singapore), 20 January 1999, p. 20, *United Daily News* (hereafter UDN) (Taipei), 10 November 1998, p. 13, and *Far Eastern Economic Review* (hereafter FEER) (Hongkong), 24 December 1998, p. 18. Kuala Lumpur has also built fishermen's shelters on one of the islands, Yuyeansha (Investigator Shoal), which is claimed by Manila. See *Straits Times*, 17 April 1998, p. 28 and 6 July 1998, p. 9. See also *CT*, 17 February 1999, p. 5.
43. Quoted in Michael Nacht, "Multinational Naval Cooperation in Northeast Asia," *Korean Journal of Defense Analysis* (hereafter KJDA) VII, no. 1 (Summer 1995): 43.
44. See my article commenting on Chiu Hungdah's advocacy in *CT*, 26 February 1999, p. 15.
45. Nathan and Ross (note 33), p. 24.
46. Cossa (note 2), p. viii–ix and p. C-6. I wish to thank Andrew M. Marton for his clarification on what is meant by "lines in the sand," dated 5 April 1999. In connection with this I cite the following material from Ellen C. Collier, *Instances of Use of United States Forces Abroad, 1798–1993* (Washington, D.C.: Congressional Research Service, Library of Congress, October 7, 1993): "1836 — Mexico. General Gaines occupied Nacogdoches (Tex.), disputed territory, from July to December during the Texan war for independence, under orders to cross the 'imaginary boundary line' if an Indian outbreak threatened".
47. Cossa (note 2), p. 6.
48. See, for example, Kemp (note 25), p. 9.
49. Churchill and Ulfstein (note 31), p. 89.
50. If, however, the Chinese and Vietnamese were able to reach an agreement on delimiting the maritime boundary line in the Gulf of Beibu as they did in the last few years, the Chinese could reinstate the two dropped segments.
51. Li Geping, "The Latest Development in the Nansha Island Group Dispute," *Inside Information on Economic Reform* (hereafter IIER) (Beijing), no. 4, 20 February 1998, p. 28.
52. Valencia (note 16), pp. 128–9.
53. The idea is taken from the subtitle of Nathan and Ross's book (note 33).
54. *Far Eastern Economic Review*, 24 December 1998, p. 18.
55. *United Daily News* (hereafter UDN) (Taipei), 8 January 1999, p. 13.
56. Pablo-Baviera (note 30), p. 14.
57. These zones were first created by Japan during the Russo-Japanese War and they required foreign shipping to follow maritime routes that kept them away from the main Japanese operational areas, within a distance of up to 10 miles from the coast. This was later regarded as a reasonable precedent by the United States Naval War College. See D.P. O'Connell, *The International Law of the Sea*, Vol. 2 (Oxford: Claredon Press, 1984), p. 1109.

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58. A protected zone exists between Australia and Papua New Guinea in the Torres Strait area. This zone provides for the continuation of traditional fishing and other traditional activities such as the free movement of indigenous inhabitants. See Oxman (note 2), pp. 38–9.
59. This refers to an area bordered by the Japanese-Korean median line, the Sino-Japanese median line, and the "valley line" running approximately along the northern end of the Okinawa Trough. See Rhee and MacAulay (note 32), p. 97.
60. The best example is the Barents Sea grey zone or grey area. See David Colson, "The Legal Regime of Maritime Boundary Agreements" in Charney and Alexander (note 2), pp. 67–8. See also Churchill and Ulfstein (note 31), pp. 64 and 66.
61. The clearest example involves the boundaries of Chile, Ecuador, and Peru which provides for a ten-mile buffer zone which allows fishermen some leeway should they inadvertently cross the boundary. See ibid., p. 72.
62. This term is mentioned in the Geneva Convention on the Continental Shelf. However, the same Convention also declares that "neither the [submersible] installations or devices, nor the safety zones around them, may be established where interference may be caused to the use of recognized sea lanes essential to international navigation." Ross D. Eckert, *The Enclosure of Ocean Resources* (Stanford, CA.: Hoover Institution Press, 1979), p. 80.
63. Ibid., pp. 81–2. Safety fareways are effectively shipping "fairways" in which no permits are granted for oil drilling as oil rigs can pose serious hazards for ships.
64. Such a zone was introduced by the United Kingdom between Fort San Felipe and Gibraltar's Old Mole and extended to a point north west of San Felipe. It met with protest from Spain. See J.G. O'Reilly, "Gibraltar: Spanish and United Kingdom Claims", *Territory Briefing 4* (Durham, U.K.: 1992), p. 8.
65. In April 1982, the United Kingdom proclaimed such a zone around the Falkland Islands/Malvinas and declared that "any Argentine warships and Argentine naval auxiliaries found within this zone will be treated as hostile and are liable to be attacked". Quoted in O'Connell (note 57), p. 1111.
66. In November 1976, the United States, in light of a dispute with Canada, published the coordinates of a line delimiting both the continental shelf and fishery zones in the Gulf of Maine area. See Johnston (note 12), p. 180.
67. The idea of "other walls" is taken from the title of Harold H. Saunders's book, *The Other Walls: The Arab-Israeli Peace Process in a Global Perspective*, rev. ed., (Princeton, N.J.: Princeton University Press, 1991).
68. The method of straight baselines will also be applied to the submerged geological formations at Zhongsha Island Group, except Huangyan Dao.
69. Johnston and Saunders, "Introduction" in *Ocean Boundary Making* (note 32), p. 4.
70. Indeed, as a PRC scholar (who obviously was unaware of the double insurance argument) remarked, the publication of the Xisha Island Group baselines "indicates that China did not consider the traditional line the maritime boundary line in the SCS". He continued by saying "[o]therwise the Xisha Island Group baselines are redundant and unnecessary". See Zou (note 6), p. 2.
71. See Peter Koh Soon Kwang, *Marine Insurance and the New Institute Cargo Clauses* (Singapore: Longman, 1989), p. 94.
72. Valencia (note 16), p. 129.
73. Wagner (note 5), p. 14.
74. See Friedrich von Wilpert, *The Oder-Neisse Problem: Towards Fair Play in Central Europe* (Bonn: Edition Atlantic-Forum, 1964), ch. 5.
75. John Anstey, *Boundary Disputes* (London: The Royal Institution of Chartered Surveyors, 1990), p. 84.
76. Prescott (note 40), pp. 22–3.

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77. Ji (note 30), p. 9.
78. For example, the former Soviet Union changed its position regarding the passage of warships through straits anywhere in a matter of some ten years. First, Moscow said prior notification by a foreign country and authorization by the coastal country would be required. Later, it reversed its position. See Van Wie Davis (note 4), p. 86.
79. Johnston (note 12), p. 78.
80. Rhee and MacAulay (note 32), p. 88. Prescott also questioned the Chinese baselines in the SCS. See his monograph (note 40), pp. 14–20.
81. See Cossa (note 2), Appendix G.
82. *ST*, 24 November 1998, p. 17.
83. *CT*, 5 April 1999, p. 1. Many scholars and experts refer to the Indian Ocean as the Indian Lake. See, for example, *UDN* , 13 May 1998, p. 15. See also *Zhong Guo Guo Fang Bao* (Beijing), 10 November 1998, p. 3. A Chinese historian living in the United States commented that Imperial Japan had wanted to turn the SCS into its internal lake. See *Straits Review* (hereafter SR) (Taipei), no. 111 (1 March 2000), p. 16.
84. Valencia (note 16), p. 129. B.A. Hamzah also questioned the way Indonesia's baselines were applied to different maritime regimes. See his book, *The Spratlies: What Can be Done to Enhance Confidence* (Kuala Lumpur: Institute of Strategic and International Studies, 1990), p. 8. It is also interesting to note that on page 14 he writes that "[t]he convention allows for multiple boundaries for the continental shelf and the EEZ, although a single unitary line would be preferred". See ibid., p. 14.
85. R. Haller-Trost, "The Spratly Islands: A Study on the Limitations of International Law," Centre of South-east Asian Studies Occasional Paper no. 14 (University of Kent at Canterbury, October 1990), p. 1.
86. See my article, "Issues on the South China Sea: A Case Study," *Chinese Yearbook on the International Law and Affairs*, no. 11 (1991–1992), pp. 138–200.
87. Oxman (note 2), pp. 36–7.
88. *Lianhezaobao* (hereafter LHZB) (Singapore), 25 March 1999, p. 31.
89. Ibid., 24 March 1999, p. 29.
90. The conventional limit is the von Karman line, which is about 80 kilometers up but varies according to conditions when aerodynamic flight becomes impossible. See Malcolm Anderson, *Frontiers* (Cambridge, U.K.: Polity Press, 1996), p. 163.
91. Chen (note 3), p. 381.
92. See, for example, United Nations Document A/CN.4/143, 9 March 1962, entitled "Juridical Regime of Historic Waters, Including Historic Bays," *Yearbook of the International Law Commission*, Vol. II, 1962, pp. 1–26, especially p. 6. Scholars like Daniel P. O'Connell support Tonga's claim over a rectangle of the waters in the high seas, which contains several groups of Tonga's islands, as its historic waters since the late 1880s. See his book, *The International Law of the Sea*, Vol. 1 (Oxford: Claredon Press, 1982–1984), pp. 417–18, as cited in Huang and Wei (note 6), p. 214 and Zou (note 6), p. 15. Leo J. Bouchez also offers his own definition of historic waters. See his book, *The Regime of Bays in International Law* (Leyden: A.W. Sythoff, 1964), p. 281.
93. Zou (note 6), p. 8.
94. Huang and Wei (note 7), p. 217 and Cossa (note 2), pp. 15–16. Huang and Wei also question the Chinese historic waters. B.A. Hamzah regards the U-shaped line as "frivolous, unreasonable and illogical"; and the SRV has officially described the U-shaped line as exaggerated and legally groundless. See Huynh Minh, "Sovereignty of Vietnam Over Hoang Sa (Paracels) and Truong sa (Spratlys) and Peaceful

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Settlement of Disputes in the Bien Dong Sea (South China Sea)", in Conference Proceedings on "ASEAN in the 21st Century: Opportunities and Challenges" (Hanoi: Institute of International Relations, March 1996), pp. 98–9, as cited in Zou (note 6), p. 11. Hamzah also writes that "... the present century has witnessed continuing pressure by states to enlarge their maritime belts, thus subjecting more and more of the oceans to their exclusive jurisdiction." See his book (note 18), p. 8. Hamzah himself regards his 1990 study of the Nansha Island Group as "a very cursory treatment of the conflicting claims ..." See his book (note 84), p. 1.

95. Pablo-Baviera (note 28), pp. 16–17.
96. Cossa (note 2), Appendix G. This is somewhat contradicted by a statement made by a U.S. State Department official to some American congressmen regarding the build-up of Chinese forces in the Nansha Island Group: "[it] is not a major security threat. It's the trend and the fact that China claims all this territory that's troubling, not the situation on the ground." Quoted in *Straits Times*, 12 April 1999, p. 28.
97. Cossa (note 2), p. C-8 and *Straits Times*, 15 March 1999, p. 11.
98. The concept of excessive maritime claims is drawn from J. Ashley Roach and Robert W. Smith's book, *United States Responses to Excessive Maritime Claims*, 2nd ed. (The Hague: Martinus Nijhoff Publishers, 1996).
99. See Stephen R. Langford, "Libya: The Gulf of Sirte Closing Line", *International Boundaries Research Unit Briefing*, 1990, pp. 4 and 8.
100. <www.chinatimes.com.tw/news/papers/online/china/m8922804.htm>.
101. *ST*, 30 March 1999, p. 48. Beijing said that mainland China would turn out ten million tons of crude oil through overseas production by the turn of the century. By the year 2010, the PRC is aiming to develop an annual overseas oil production capacity of 50 million tons, in addition to an annual gas supply of 50 billion cubic meters from abroad. See online <.hkstandard.com/today/default.asp.> 1 June 1999. In October 1998, Beijing told Tokyo that there would be a decrease in its supply of Daqing oil to Japan. In January 1999, Beijing said that no oil would be exported to Japan in February 1999. According to the contract, the PRC was supposed to export more than six million tons of oil to Japan. Japan was (understandably) not happy about this. See *CT*, 7 February 1999, p. 14.
102. *ST*, 1 April 1999, p. 50. The ROC on Taiwan has lost a lot of money in crude oil explorations overseas in the last 30 odd years. See *UDN*, 26 March 1999, p. 15. By 2022, the mainland's oil consumption will triple. See <www.news.chinatimes.com/Chinatimes/news/newslist-content/0,3546,110505+112003072700057,00.h>, 27 July 2003.
103. *ST*, 19 March 1999, p. 64 and 13 April 1999, p. 46. See also <http://lw9fd.law9.hotmail.msn.com/cgi-bin/getmsg?curbbox=F00000001&a=1f033115d5>, 2 November 2001 and *Economist*, 15 December 2001, pp. 15–16.
104. Due to global warming, there is the possibility that all the islands in the South China Sea could go below sea level. Even if this happened, issues relating to areas such as EEZs and the continental shelf would still exist.
105. Fu Kuen-chen, "Maritime Rights of the Chinese People," *Straits Review*, no. 99 (March 1999), p. 7.
106. Quoted in Ji (note 30), p. 26. PRC does not, however, agree to jointly possess the islands with other claimants. See ibid., p. 28.
107. Smith and Thomas (note 31), p. 20.
108. Email from Juan Antonio Escudero, United Nations Division for Ocean Affairs and the Law of the Sea, 23 January 1999.
109. Barry Wain, "The 'Tibetization' of the South China Sea", *Asian Wall Street Journal* (hereafter AWSJ) (Hongkong), 12–13 February 1999, p. 10. Wain again urged the

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Chinese to give up the U-shaped line. See his article, "Beijing should Erase the 'U-shaped Line'," *AWSJ*, 26–28 May 2000, p. 10.

110. Johnston (note 12), p. 288.
111. Valencia (note 16).
112. See Eckert (note 62), pp. 272–89. For other failures of the 1982 Law of the Sea, see Johnston and Saunders, "Introduction" in id. (note 32), pp. 4–8.
113. Argentina is still thinking of taking back the Malvinas/Falkland Islands from the United Kingdom. See *LHZB*, 7 April 1999, p. 2. See also *Straits Times*, 10 August 1999, p. 11.
114. The author wishes to thank Stein Tonnesson and other reviewers for their critique of this article.

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Contemporary Southeast Asia 25, no. 3 (2003): 431–48 ISSN 0219-797X

The 2004 Presidential Elections in Indonesia: Much Ado about Nothing?

BILVEER SINGH

Electoral reforms are important for transitional democracies such as Indonesia, especially when the country has experienced long periods of authoritarian rule with too much power vested in the presidency. The reforms instituted in the post-Suharto period have totally transformed Indonesia. Some observers have argued that the country is moving too fast as evident from continued instability and disorder as well as the proliferation of various acts of violence since May 1998. In this regard, the institution of the direct election of the president in 2004 will mark a watershed departure from the past. Yet, at the same time, judging from the political architecture of the country as well as the existence of various political groups and élites, not much change can be expected. Even though there is a proliferation of political activity, the ability of these groups to grab power remains largely limited. To that extent, the new system of electing the president and vice-president is unlikely to lead to a massive change of power structure in the country's politics for the forseeable future. The incumbent, Megawati Sukarnoputri, will most likely be returned to power with minor changes in the Indonesian political scene.

Is the Baggage of the Past Relevant?

Indonesia's third president, B.J. Habibie, once described the Indonesian Presidency as the most important political office in the country. In October 1998, he opined that, "according to the rules of the game of Indonesian politics, the President is one of the most powerful men in

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the country and this can be simply too dangerous."[1] The powers of the Indonesian President have been enshrined in the 1945 Constitution providing the Chief Executive with immense responsibilities of being the Head of State, Head of Government, *Mandataris* of the People's Consultative Assembly and the Supreme Commander of the Armed Forces. For an Asian state with a rich historical past, the actual powers of the President are written as well as found in unwritten conventions and practices — and not surprisingly, the Indonesian President is more powerful than has been expected.[2] It is due to these immense powers that the contestations surrounding the Presidency have been vitally important due to the immense stakes involved for the political entity, both internally and externally. Until May 1998, Indonesia had only experienced two "presidential successions", both accompanied by great turbulence and loss of lives.

In view of these factors, the issue involving "presidential succession", either through peaceful renewal and a transfer of power or the forcible removal of the incumbent, has always consumed the attention of all stakeholders. In Indonesia, the role of personalities rather than institutions has continued to dominate the dynamics of "presidential succession". In the end, only one person can drive the state car even though there are many who would like to do so. If the car has been seldom used, there will be great uncertainties about its driving capacity notwithstanding how good it looks. If many people died the last time someone got into the car, the tensions, uncertainties and anxieties will be all the greater. Until May 1998, the drivers of the state car, namely, Sukarno and Suharto, had been, in their own ways, greatly burdened with ensuring that the next driver was adequate so that he or she could drive the car without any major mishap. Yet, there are great limitations and difficulties in allowing the incumbent to dictate political and transition the pace of change, particularly when people have become unhappy with the existing regime, as was the case during the tail end of the Sukarno and Suharto periods.

The Post-Suharto Era of *Reformasi* and Democratization

President Suharto was overwhelmingly re-elected by due process of the then existing political structure for a record seventh term in March 1998. His term was to last for five years. However, due to the rapid contraction of the economy, unleashing of social and political challenges and defections by key political allies, his beleaguered presidency culminated in the resignation of the strongman in favour of his deputy, Vice-President B.J. Habibie.[3] The new president instituted wide-ranging political and constitutional changes that were to define Indonesia's

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post-Suharto political system. The convening of an Extraordinary Session of the MPR (People's Cosultative Assembly) in November 1998 led to the passage of twelve landmark decrees that marked and legitimized the break from the Suharto era.[4] The general elections in June 1999 and the presidential election in October 1999 emplaced a new group of political leaders that were to oversee Indonesia's transition into a democracy.[5] While evolving into a functioning democracy, political uncertainties and instability have dominated post-Suharto Indonesia: this is most evident in the changes that have affected the helm of the political ladder. While Sukarno and Suharto ruled uninterrupted from August 1945 to March 1998, between March 1998 to the present, the country has experienced a rapid turnover of its presidents: with Suharto from March to May 1998, Habibie from 21 May 1998 to 19 October 1999, Abdurrahman Wahid from 20 October 1999 to 23 July 2001, and Megawati since 23 July 2002, with her term likely to be completed in 2004. In many ways, the instability of the post-Suharto period was principally due to the nature of political parties and leaders that came to power following the resignation of the strongman who held power for more than 32 years.[6] Hence, the importance of understanding the June 1999 general elections and the subsequent installation of three presidents in the country.

The 1999 General Elections

The general elections were conducted against a background of increasing euphoria surrounding the downfall of the largely authoritarian New Order regime.[7] This major event led to a proliferation of political parties with 148 being registered by early 1999. By the time the country readied for the polls, only 48 were eligible for the electoral contest. The elections were organized to elect party members for the national Dewan Perwakilan Rakyat (DPR, House of Representatives) as well as the regional and provincial legislatures. By most yardsticks, the 1999 general elections were the most fair, just and transparent the country had seen. However, unlike in advanced democracies, personalities rather than party programmes dominated the hustings. In the last few days of the campaign, religion and related issues made a presence with the Islamic-oriented parties accusing the Partai Demokrasi Indonesia Perjuangan (PDIP) of being anti-Islamic for fielding a majority of non-Muslim candidates.

When the results were announced, only six parties, namely, the PDIP, Partai Golongan Karya (Golkar), Partai Persatuan Pembangunan (PPP), Partai Kebangkitan Bangsa (PKB), Partai Amanat Nasional (PAN) and Partai Bulan Bintang (PBB) received a significant proportion of

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votes. The other 42 parties were relegated to being minor parties. Of the six major parties, four (PPP, PKB, PAN and PBB) were essentially Islamic in character, although sharp differences existed among them. Only the PDIP and Golkar could claim to be secular-nationalist in orientation. In the election, the PDIP won 154 seats in the DPR, Golkar 120, PPP 58, PKB 51, PAN 36 and PBB 13.[8] The PDIP under the leadership of Megawati, the eldest daughter of Indonesia's first president, Sukarno, emerged as the leading party capturing 34 per cent of the valid votes with Golkar trailing second with 22 per cent and the PPP third with 11.6 per cent (see Table 1). In reality, this meant that the three leading parties of the Suharto and post-Suharto eras were similar even though the PDIP was now in the position of national leadership.

The PDIP and Megawati's victory in the polls can be attributed to a number of factors. First, there was the symbol of the PDIP, especially Megawati, as a victim of repression of the New Order regime. Second, there was the support bequeathed to Megawati by the sheer fact that she was the daughter of Sukarno, as there continues to be much sympathy and support for the charismatic first president, especially in Java and Bali. Megawati and her party were viewed as bearers of the Sukarno dream, especially in terms of championing the "small people" or *wong cilik*. Third, various groups and individuals who were anti-Suharto, anti-Habibie, anti-Golkar and anti-Islam, for one reason or another, supported the PDIP. Finally, there was also the public image created by the domestic and international media of the PDIP as the underdog and

TABLE 1
Composition of DPR Members, 1999–2004

Political Party	*Number of Seats in DPR*	*% of Valid Votes in General Elections*
Partai Demokrasi Indonesia Perjuangaan (PDIP)	153	30.60
Partai Golongan Karya (Golkar)	120	24.00
Partai Persatuan Pembangunan (PPP)	58	11.60
Partai Kebangkitan Bangsa (PKB)	51	10.20
Partai Amanat Nasional (PAN)	36	6.80
Partai Bulan Bintang (PBB)	13	2.60
Partai Keadilan (PK)	7	1.40
TNI/Polri	38	7.60
Others	26	5.20
Total	500	100.00

SOURCE: *Kompas*, 21 February 2003.

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more important, of a party that would be suitable to take over the mantle of political leadership in the country.

Over and above these reasons, PDIP also benefited from the special circumstances surrounding the general election. In the electoral contest in 1999, a clear distinction could be made between parties and movements, with the former being more established and institutionalized compared to the latter which tended to operate like interest groups. Most of the 48 parties that contested the polls were movements. When the voters went to the polls, the Islamic parties such as PPP, PBK, PAN and PBB, for instance, evidently put off many non-Muslim voters. This left them the choice between Golkar and PDIP. Due to the negative image of the erstwhile New Order ruling party, many refused to vote Golkar. Also, most of the "movements" were uncomfortable with Golkar as they had suffered under the New Order regime. In a way, despite various weaknesses facing the PDIP, it was able to perform well in the polls due to the emergence of a symbiosis with many movements finding a "common enemy" in the person of Suharto or Habibie (leaders of Golkar respectively), as well as Golkar, the party itself. This meant that many voters were left with no option but to vote for the PDIP and this accounted for its better than expected performance in the general elections.

Yet, structurally, among the major political parties in post-Suharto Indonesia, the PDIP is a weak party and this will continue to have major implications for Indonesia's politics in the near future. While the PDIP emerged as the leading political party in the 1999 general elections and its leader, Megawati eventually succeeded in becoming the country's fifth president, historical and political realities are very much against her party. Historically, the former PDI was a potpourri of minor political parties with divergent and often conflicting interests, cobbled together by the New Order regime in January 1973. This brought together the Partai Nasional Indonesia (PNI), Partai Kristen Indonesia (Parkindo), Partai Katolik, Partai Musyawarah Rakyat Banyak (Murba), and Ikatan Pendukung Kemerdekaan Indonesia (IPKI). From the very beginning the PDI has been a heterogeneous party bringing together different religious denominations (especially Christians), and socialists, nationalists, liberals, and capitalists. The key problem confronting the party has been unity, which has largely eluded it since 1973. This was the main reason for the relatively poor showing of the party whose support has fluctuated between 2.5 to 14 per cent of the valid votes from 1971 to 1997. Having lost a "common enemy" to unite against in the post-Suharto and post-Habibie period and more important, once in a position of power, how the party succeeds in maintaining its unity, will largely determine its future place in Indonesian politics.

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The 2004 Presidential Elections

Following Suharto's departure, the country's political élites to a large extent continued the entrenched practices as far as the election of the president was concerned even though the label of being of more democratic, transparent and accountable was attached to the whole process. If there was a fundamental change, it was the introduction of the Annual Session of the Majlis Perwakilan Rakyat (MPR) whereby the President was required to present an "accountability address" which the MPR was to either accept or reject. As the MPR was also the only body that could "hire and fire" the president, these new powers gave the MPR a renewed sense of importance with everything being undertaken in the name of *reformasi,* democratization, greater participation and accountability.

Direct Election of the President and Vice-President

In a major break from the past and representing an attempt to become a more democratic society, the Annual Session of the MPR in November 2001, for the first time, provided for the direct election of all members of the House of Representatives, the Regional Representative Council (Dewan Pewakilan Deaerah, DPD), and the president and vice-president, something that was first suggested by the then reform-oriented B.J. Habibie. According to the consensus reached among the delegates at the MPR Session in November 2001, the new system would encompass a number of new features. First, unlike the past where the MPR elected the president and vice-president, the top two political positions in the country will be decided by a direct vote by the people. Second, the election of the president and vice-president was to be held after the general elections. Third, unless a candidate won a simple majority and garnered the majority of votes (50+1 per cent), a second round will be held between the two leading candidates to decide the winner. Fourth, a political party or a coalition of political parties will nominate the candidates for the post of president and vice-president.

In order to actualize the new electoral system, the House of Representatives was expected to pass a number of laws. This was greatly delayed. These laws and regulations were to have been ready by November 2002. However, due to various administrative reasons, this was not done and as a result, these regulations had to be rushed through to early 2003. Among other aspects, these laws and regulations involved the registration of political parties, organization of the general, presidential and vice-presidential elections, composition of the House of Representatives, provincial and regency legislatures, the constitutional court as well as the mandate of the General Election Commission

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(KPU).[9] By the time these regulations were in place, the KPU was given a budget of Rp 3.45 trillion as well as permitted to appoint 1,750 members in the 30 provinces and 410 regencies and municipalities to oversee the elections.[10] Of the more than 200 political parties registered, according to various criteria set by the KPU, only 50 are likely to be eligible for the polls.[11] The KPU also started to register the 141.97 million voters in April 2003.[12] Despite the addition of five new provinces, Law Number 12/2003 also stated that there would be the same number of seats in the House of Representatives in 2004 as there were in 1999. While general elections are scheduled to be held on 5 April 2004, followed by a two-phased presidential elections in June and August, the new election laws only allowed political parties or coalitions winning at least 20 per cent of the House seats to nominate presidential candidates. According to the new election laws, no later than seven days after the results of the legislative elections have been announced, political parties or coalitions must register the nomination of the presidential candidates and their running mates with the KPU.[13]

Significance of the Direct Election System

The significance of the changes that were introduced with regard to the direct election of the president and vice-president, rather than through some form of an electoral college through the MPR, should not be lost. First, the powers of the MPR would suffer a distinct diminution with its role as the arbiter of the nation's president, vice-president and even the progenitor of the Broad Guidelines of State Policy (Garis Besar Haluan Negara, GBHN) being removed from its purview. In many ways, the MPR, by passing the amendments and revisions, curbed its own powers in so far as the election of the president and vice-president was concerned.

Second, where the peoples' sovereignty has been exercised through the MPR, this would now be returned to the people, who will directly exercise it in the election of the president and vice-president. Third, unlike the recent past following the resignation of Suharto, where the president was often at the mercy of the MPR (witness its role with regard to B.J. Habibie's and Abdurrahman Wahid's departures), the new electoral system is likely to herald the rise of a strengthened presidency even though this must be understood in the context of a clearer separation of powers between the executive, legislature, and judiciary. This notwithstanding, a direct mandate from the people will result in greater legitimacy and strengthening of the political authority of the president and vice-president.

Fourth, there could be a certain degree of depreciation of the importance of political parties in the country. Even though they remain

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important in the nomination of candidates for the presidency, vice-presidency, the DPR and DPD, yet at the same time, what is likely to win a candidate the presidency is going to be the strengths of the individual concerned. Even though the candidate is likely to be endorsed by a particular party, a powerful and charismatic personality and one that is less dependent upon a political party might be the order of the day in future. Fifth, a president and vice-president directly sanctioned by the people are likely to affect the balance of power of the three key elements of the political system, namely, the executive, legislature, and judiciary. There could be a strong propensity for the rise of the "imperial presidency" in the context of domestic politics, especially if the political parties and the ensuing power structures are highly fractured and dispersed, as is likely to be the case in the coming years.

Will the New System Work?

Thus far, a great deal of political capital has been invested by all the political parties in wanting to implement the new system of directly electing the country's president and vice-president — a development that will signal rather strongly that Indonesia is arriving on the scene of democracy faster than expected. Thus far, the planning has proceeded in the hope of holding a general election in June 2004 and the presidential election in August 2004 so that Indonesia would have a new legislature, president and vice-president by October 2004.[14] Yet, at the same time, there are questions that need to be answered. Initially, even President Megawati wondered whether the country was ready for such a system, fearing the instability and unrest it might spark.[15] Her strongest reservations stemmed from the level of maturity of Indonesian voters and their tendency towards feudal-oriented leaders.

In this connection, a number of concerns are worth highlighting. First, is the General Election Commission or KPU ready to conduct the direct presidential poll especially following the holding of a general election in 2004? Second, in view of the intensely pluralistic character of the country, is Indonesia really ready for such a system? Third, in view of the ongoing vertical and horizontal conflicts across the country which have certainly not abated since 1997, will the widening of the democratic corridor further destabilize the country and lead to more bloodshed? Fourth, in view of the largely primordial political culture of its people, the geographical expanse of the archipelago, the uneven distribution of population, wealth, resources, education and infrastructure, will Indonesians be able to elect a president and vice-president on the basis of merit?

In the light of these concerns and despite Megawati's promise to move ahead with the direct elections and withdrawal of her objections

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to the new procedure, not all in the public are fully comfortable with what is being implemented. One survey showed that one in four Indonesians believed that the country was not ready for direct presidential elections. This perception stemmed from the fear of violence and instability that democracy might bring, as the notion and practice of democracy still remains alien to the majority of the people, especially those in rural areas.

Election Outcomes

Two key aspects will determine the final outcome: the system of presidential election and the criteria utilized by the voters to elect the eventual winner. As the system is one based on direct election and in which political parties are expected to proffer the "best" candidate, what constitutes the "best" will play a major role in determining the eventual winner and hence, Indonesia's president in 2004. Here, a number of factors are likely to influence the choice of Indonesia's next president and vice-president.

First, the divide between Javanese and non-Javanese. Thus, if the proposed president is a Javanese, then it might be prudent to have a running mate who is non-Javanese in order to garner the necessary votes from key centres in Sumatra, Sulawesi, Kalimantan, etc. In this way, the new leaders would be able to project themselves as a truly "Indonesian team" rather than fuel what is increasingly perceived as the perpetuation of Javanese domination and exploitation. Second, the ability of the new team to project itself as one that has a vision for Indonesia and one that is able to undertake various problem-solving measures in order to permit Indonesia to reclaim its domestic peace and stability as well as its place in the international arena. Third, the new team must be seen as an improvement over the present incumbents in terms of strengthening political, economic and social stability, as well as improving its international image.

Fourth, the new team must be highly respected and reputed both domestically and internationally. The key élite circles in Indonesia must rate the candidates highly in terms of integrity and professionalism. Fifth, the new team must be able to present itself as a unifier and integrator, and not be a source of new divisions or fuel past divisions. In short, the new team must be able to proffer landmark policies that will present them as living in the spirit of *Pancasila* and where genuine efforts and policies are made to ensure the unity of the country. Sixth, the new team must be telegenic and able public speakers and debaters — an asset that is likely to upstage the incumbent Megawati-Hamzah partnership. Seventh, in a largely Islamic populace, the winner will be one that is able to appeal to the majority of the voters, especially the

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mainstream Nahdlatul Ulama (NU) and Muhammadiyah organizations. Whoever wins the support of this Indonesian "heartland" will win in a largely first-past-the-post system. Eighth, most important of all, the new team must score highly in terms of acceptability by the key centres of power: Islamic organizations, the armed forces (TNI), the business community, civil society, the masses, as well as the foreign investors.

The Key Potential Candidates for the 2004 Presidential Election

As only political parties can nominate candidates for the election of Indonesia's president and vice-president, the leading parties in the country, namely the PDIP, Golkar, PPP, PKB, PAN and PBB, either alone or in coalitions, are likely to be critical in determining who wins the direct election for the top two political posts in the country. In the past, political parties tended to put forward a candidate from within their own ranks and then tried to utilize the party machinery to ensure the victory of the nominated candidate. However, in the new system of direct election, there may be a change in strategy. What is important is not a candidate's affiliation with a particular party; rather, more important is the charisma, appeal and reputation of the candidate — and some parties might be tempted to "helicopter" a candidate into a party as there are many such non-partisan individuals who are regarded as the "best and brightest sons" of Indonesia. The Indonesian masses themselves seem prepared to entrust the nation's mandate to such a candidate, given the disenchantment with the present politicians in power. Hence, the challenge for the political parties in accommodating and attracting "winning" individuals is to present a candidate that the public cannot reject.

Candidates from own Political Parties

To date, various political parties have nominated their respective candidates for the coming presidential elections. The PDIP has nominated Megawati Sukarnoputri, the incumbent, who is a Javanese and civilian; the PPP, Hamzah Haz, a non-Javanese and civilian; the PBB, Yuzril Ihza Mahendra, a non-Javanese and a civilian; the PAN, Amien Rais, a Javanese and civilian; the PKB, Gus Dur (ex President Abdurrahman Wahid), a Javanese civilian; and the PDK, Ryaas Rasyid, a non-Javanese civilian. There are also a number of other possible candidates. First, there is the Governor of Jogjakarta, Sultan Hamengkubuwono X, a Javanese civilian but who is somewhat detached from the Jakarta political scene. Second, Professor Nurcholish Madjid,

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a respected Javanese civilian but who has remained somewhat reluctant to participate in practical politics. Third, General Susilo Bambang Yudhoyono, a Javanese, the country's most respected military figure and particularly popular with local voters as well as foreign governments. Fourth, Jusuf Kalla, a non-Javanese civilian and who is a senior Golkar member. Fifth, Adi Sasono, a Javanese civilian who has a good grassroots network, especially Islamic organizations and NGOs. Sixth, Hashim Muzadi, a Javanese civilian who heads the Nahdlatul Ulama but somewhat weak. Seventh, General Wiranto, a Javanese with growing political networks in the country but whom the shadow of East Timor continues to haunt. Eighth, Surya Paloh, a non-Javanese civilian, very wealthy but relatively weak politically. Ninth, Professor Juwono Sudarsono, a Javanese civilian, highly respected but lacking a power base. Tenth, Aa Gym, a Javanese civilian, exceptionally popular among Muslims and non-Muslims alike, young, untainted and with a fresh approach to national unity.

Possible Winning Formulae for the 2004 Presidential Election

Following the general election, a party or a coalition of parties that will be able to campaign and mobilize nation-wide is likely to assist the presidential and vice-presidential duo to win the first-ever direct election. In this regard, a number of political combinations are possible.

What the matrix indicates is that while there appears to be the possibility of change at the highest political office following the 2004 presidential elections, the likelihood is minimal. Despite the existence of widespread disenchantment with the present incumbents, the success of the Megawati era lies largely in its ability to bring about a modicum of stability and predictability to Indonesian politics following the upheavals that accompanied the last days of Suharto as well as the Habibie and Wahid presidencies. In this connection, what will eventually factor in determining the winner of the presidential election will be the candidate that will be viewed as one that is a possessor of a number of important winning qualities.

First, the candidate must be a leader, one who must be seen to be leading the government and nation. Second, the future president must be clean, that is free from allegations of corruption. Third, the next national leader must be effective, being able to efficiently undertake all tasks professionally. Fourth, the Indonesian president must be able to deliver, namely succeed in providing the political, economic, social, and security goods and services at home. Fifth, the president must be able to act as a conciliator, namely to symbolize national unity. Sixth, the next president must also be one who exudes confidence so that

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Matrix of Personalities and Political Parties for President/Vice-President

President	*Vice-President*	*Remarks*
Megawati	Hamzah Haz	*Status quo* is maintained; something unlikely due to all-round public, élite and business unhappiness with lackluster leadership of incumbents.
Megawati	Jusuf Kalla/Ryaas Rashid/Yuzril Mahendra	Megawati abandons Hamzah Haz while retaining a modicum of Islamic and outer islands' support.
Sultan Hamengkubuwono	Jusuf Kalla/Ryaas Rasyid	A new coalition against Megawati-Hamzah Haz representing a breakdown in the present coalition with Golkar opposing the PDIP & PPP.
Nurcholish Madjid	Jusuf Kalla/Ryaas Rasyid	Same as above.
Sultan Hamengkubuwono/ Nurcholish Madjid	Hamzah Haz	Similar to the above, especially if the Sultan or Cak Nur is put up by Golkar with PPP joining the ranks.
Amien Rais	Jusuf Kalla/S.B. Yudhoyono	An attempt to mobilize the NU-Muhammadiyah masses against the PDIP-Golkar coalition.
Susilo Bambang Yudhoyono	Ryaas Rasyid	An attempt to inject a relatively fresh political team, largely professional and untainted by 'dirty politics' and one with some degree of support from the business and international community.

renewed faith can be injected into the country to attract, among others, foreign investment. Seventh, Indonesia's next president must also be a leader whose international legitimacy is beyond doubt.

The challenge is whether there is such a political figure in Indonesia. The answer is a definite yes with the key candidates fitting the bill including incumbent Megawati Sukarnoputri, Sultan Hamengkubuwono, Nurcholish Madjid, Jusuf Kalla and Bambang Yudhoyono. Amien Rais also believes that he fulfils these criteria.[16] However, the more critical questions would be as follows: what combination of political parties and political leaders will it take for a winner to emerge? What will be the texture of the team of a president and vice-president the electorate will vote into office? At the time of writing, this remains an open question.

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Regional Implications of the 2004 Indonesian Presidential Elections

Indonesia's transition towards democracy has not been without cost. The 1997 Asian financial crisis gravely impaired Indonesia's political, economic and military power and created a setting of almost perpetual crisis in the largest Southeast Asian state. Compared to the Suharto era, what has transpired since May 1998 has been a Southeast Asia that is somewhat devoid of Indonesia's leadership. This stems primarily from the emergence of Indonesia as a relatively weak and unstable state. Due to these pressing challenges, Indonesia's presidents from Habibie to Megawati have been somewhat inward looking. In the process, Indonesia has not only lost the leadership of the region but even more important, due to its weakened position, has given ASEAN and the Southeast Asian region as a whole the label of being weak, leaderless and unstable. In turn, this has undermined the region as a whole, affecting its attractiveness for foreign investments and eroding its global standing as a regional actor with a certain measure of clout.

In the event, whoever becomes Indonesia's next president must have an additional important quality. Whilst having a comprehensive and coherent national vision is important, it is equally vital to have a regional vision as whatever happens in Indonesia will directly impinge upon the region politically, economically and strategically. Hence, it is incumbent upon the next Indonesian president to demonstrate both a geopolitical sense and regional vision for the benefit of Indonesia's national interests and its contribution to the regional security of Southeast Asia and beyond.

The Centre for Political Studies (CPS) Poll

Ascertaining accurately and effectively the wishes and demands of the public, especially the voters, is an integral part of any democracy. In this connection, the CPS has been performing an invaluable service to Indonesia and the study of its politics by attempting to poll the electorate's wishes on what and whom it thinks is best for the country. Here, the results are useful in determining the quality of discourse in terms of what the public thinks about Indonesia's president and vice-president in 2004. In this regard, the 2002 and 2003 polls were very indicative of the thinking, wishes and perception of the public as far as the leading candidates are concerned.

In the 2002 survey, Nurcolish Madjid was ranked highest in terms of intellectual capability, national vision, and honesty. The Sultan was however ranked highest in terms of charisma as well as in morality and courage in decision making. The key personalities in power today,

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The 2002 Poll Ranking

Rank	Name	Rank	Name
1	Sultan Hamengkubuwono	8	Tutut
2	Nurcholish Madjid	9	Hamzah Haz
3	S.B. Yudhoyono	10	Ryaas Rashid
4	Amien Rais	11	Jusuf Kalla
5	Yuzril Mahendra	12	Syafii Maarif
6	Wiranto	13	Hashyim Muzadi
7	Megawati	14	Solahuddin Wahid

Megawati, Hamzah, and Amien Rais (not to mention Akbar Tanjung), were deemed most likely to be involved in corruption, collusion, and nepotism — unacceptable political sins — and were likely to suffer the wrath of the voters.

In many ways, the 2003 poll would tend to vindicate the 2002 poll. Among others, it confirmed the general popular unhappiness with the Megawati-Hamzah team. More important, the preference of those polled tended to favour Sultan Hamengkubuwono and Nurcholish Madjid as their main candidate for president and Jusuf Kalla would tend to have emerged as a leading choice for the vice-president's post, thereby sustaining a "national unity" of a Javanese and non-Javanese duo. Even though the Megawati-S.B.Yudhoyono team polled a respectable third, namely, 19.2 per cent compared to 27.9 per cent and 27.0 per cent to the Sultan-Kalla or Nurcholish-Kalla team respectively, this combination could prove fatal as far as regional sentiments are concerned, especially at a time when the various regions within Indonesia are seething with discontent and evidencing a sense of deprivation.

Then again, there are other factors that need to be borne in mind. Once the candidates hit the campaign trail, except for the middle class and informed élites, the majority of the Indonesian voters might be drawn more to the personalities rather than the programmes of the

The 2003 Poll Preference for President and Vice-President

Rank	President	Vice-President
1	Sultan Hamengkubuwono	J. Kalla
2	Nurcolish Madjid	J. Kalla
3	Megawati	B.S. Yudhoyono
4	Amien Rais	Yusril Mahendra
5	Megawati	Hamzah Haz
6	S.B. Yudhoyono	J. Kalla

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individuals. Here, the Sultan and Megawati stand a good chance of mesmerizing the public. However, unlike the past, Megawati has to become a public personality in the wide glare of the media and here she stands to lose compared say to the Sultan or Nurcholish Madjid. Equally important would be the role of the first time voter (*pemilih pemula*) — there are expected to be some 60 million of these critical voters. For them, personalities such as Megawati, Hamzah Haz and Amien Rais may be *passé*. Even the Sultan might appear too feudalistic except possibly for those in Central and East Java. However, for the rest of Indonesia, a personality such as Nurcholish Madjid would appear to be more appealing: a highly intelligent, eloquent, programmatic visionary, moderate and yet able to hold the nation together and move ahead, both from within and without.

Significance of the 2002–03 Polls

The CPS polls, taken together with other polls, particularly the one conducted by the Institute for Economic and Social Research, Education and Information (LP3ES) have confirmed a number of findings. First, the electorate is clamouring for a change of leadership at the pinnacle of power. Second, this primarily stems from the electorate's disenchantment with the present political leaders whom they reckon to be either unfit or undesirable to lead the country and who are believed to have failed to retain the trust of the public that wanted a change in the direction of both democratization and development. Third, there is growing public discontent following the rapid change of leadership from Suharto to Habibie to Gus Dur and now to Megawati, with people becoming disenchanted with political élites embroiled in power struggles and amassing personal wealth while ignoring promises of reform, change and progress. Fourth, the polls indicate a lack of confidence in the present political élite with some changes likely to take place at the top.

The Likely Outcome

Despite the predictions of various polls about the future of Indonesia's political leadership, what is clear is that this will be eventually decided by the power and appeal of the leading political parties. In essence, the PDIP, Golkar, the Islamic parties and the Indonesian military are expected to play leading roles in this endeavour. Even though various surveys have thrown up "ideal" candidates such as Nurcholish Madjid and the Sultan of Jogjakarta, in a situation where political power is in command, Indonesian political leadership would most likely reside in the hands of party leaders from the PDIP and Golkar. As the PDIP is unlikely to secure a simple majority in the polls, to secure the presidency

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it must enter into a coalition arrangement with another party. This was confirmed by a PDIP spokesperson who argued in March 2003 that "we are adding up all the possibilities and we will likely need to enter into a coalition with other parties to win the presidential election."[17] The PDIP has also recognized that its appeal is relatively weak in two main areas, namely in the eastern parts of Indonesia and with the Islamic constituents.[18] A running mate that can overcome this deficiency could strongly advantage Megawati and the PDIP. To be effective, the PDIP's potential partner must share the same political platform and ideology and in this regard, Golkar appears to be the most likely with Yusuf Kalla or Susilo Bambang Yudhoyono as Megawati's potential running mate.[19] All being equal and barring any surprises, the combined power of the PDIP and Golkar is likely to win Megawati the presidency in 2004. The return of the discredited Golkar Party that dominated New Order politics might appear incredible, yet, in reality, it has remained one of the strongest political parties in the country because it is still the most united political party and also the richest in human resources. All other leading parties have been embroiled in serious internal conflict — with the PDIP splitting into four different parties and the present PDIP itself being split into two main camps, while the other three leading parties, namely, the PKB, PPP and PAN are each split into two groups respectively.[20]

How is the PDIP-Golkar victory likely to be achieved? Both the leading candidates polled by various surveys, namely Nurcholish Madjid and the Sultan of Jogjakarta, were successful at the Golkar Convention in October 2003.[21] Golkar's present leader, the much discredited Akbar Tandjung, is likely to win his party's leadership, a result that would be welcomed by the PDIP. The other key contenders are Jusuf Kalla, Suryo Paloh, Aburizal Bakri and Wiranto. With Akbar competing with Megawati in the first round of the presidential elections, the latter is likely to emerge the winner due to the former's poor public image. The main contender against Megawati is likely to be Amien Rais, who is being supported by various large and small Islamic parties. In the second round of the presidential elections, Golkar will throw its weight behind Megawati with Jusuf Kalla as Megawati's running mate. In this manner, a PDIP-Golkar coalition is expected to emerge in the second round of the presidential election and this could seal the presidency and vice-presidency for the PDIP and Golkar.

Conclusion

The 2004 elections in Indonesia will signpost the growing democratization and maturity of the Indonesian voters. While this bodes well for the country, especially following the political, economic

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and social turbulence it experienced since the onset of the Asian financial crisis in August 1997, the challenges that will be thrown up by the increasingly discerning and demanding electorate vis à vis the new system remain to be seen. In some ways, the country and its people need more time to be able to digest and reflect upon these changes and what they mean for them and their political future. All democracies come at a cost, particularly countries that are fractured along racial, religious, linguistic and cultural fault lines. Democracy and democratization implies a forward movement. However, a democracy that is mismanaged or, at worst, becomes dysfunctional or fails, is a political, economic, and strategic liability. While there remain questions about the readiness of the majority of Indonesians for a full-blown democracy, how the domestic and international community will judge Indonesia remains to be seen, and to that extent, the 2004 elections are a vital litmus test of what Indonesia is, what kind of political system it is going to have and what its future holds. A democratic label is meaningless unless it is one that is functional and delivers the goods, domestically and internationally. In a nutshell, therein lies the real significance of the 2004 elections.

In this context, when one analyses the leading political parties and candidates for the coming presidential election in Indonesia, it is quite apparent that one should not expect a fundamental change of personalities to take place. If anything, the leading parties and personalities of the post-Suharto period are likely to continue to lead the country in the coming years, namely, the PDIP, Golkar and the PPP. In terms of personalities, incumbent President Megawati, Vice-President Hamzah Haz, House of Representatives Speaker, Akbar Tandjung, MPR Chairman Amien Rais, Coordinating Minister for Political and Security Affairs, Susilo Bambang Yudhoyono as well as senior Golkar official Yusuf Kalla, are likely to be the leading personalities in what continues to be Indonesia's personality-based political culture. To that extent, although the direct election for the president and vice-president is an important and fundamental change in electoral politics of Indonesia, in reality, there appears to be much ado about nothing.

NOTES

1. Interview with President B.J. Habibie, 3 October 1999 at Istana Merdeka, Jakarta, Indonesia. Cited in Bilveer Singh, *Succession Politics in Indonesia: The 1998 Presidential Elections and the Fall of Suharto*, (London: Macmillan, 2000), p. xiii.
2. Ibid.
3. For a deeper analysis of the fall of Suharto and the rise of Habibie, see ibid., pp. 99–154. Also see Bilveer Singh, *Habibie and the Democratisation of Indonesia*, (Sydney: Book House, 2001), pp. 47–58.
4. The decrees passed by the Extraordinary Session of the MPR in November 1998 dealt with matters on: internal rules of the MPR; annulment of New Order's policies

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on referendum, State Policy Guidelines, granting of extraordinary powers to the president, and Pancasila; general elections; terms of the President and Vice-President; development; regional autonomy; human rights; good governance; and political economy. See Bilveer Singh, *Habibie and the Democratisation of Indonesia*, pp. 99–100.

5. For an analysis of general elections in Indonesia under the Suharto regime, see M. Natsir, *Evaluasi Pemilu Orde Baru: Mengapa 1996–1997 Terjadi Pelbagai Kerusuhan? Menyimak Gaya Politik?* (Bandung: Penerbit Mizan, 1997).
6. For various developments in the political and party arenas, see Ipong S. Azhar, *Benarkah DPR Mandul: Pemilu, Partai dan DPR Masa Orde Baru*, (Jogjakarta: Biagraf Publishing, 1997).
7. For details, see ibid, pp. 100–110. Also see Kevin Raymond Evans, *The History of Political Parties and General Elections in Indonesia*, (Jakarta: Arise Consultancies, 2003), pp. 121–38.
8. See Bilveer Singh, *Habibie and the Democratisation of Indonesia*, p. 103.
9. *Jakarta Post*, 11 February 2003.
10. Ibid., 21 February 2003.
11. See *Jakarta Post*, 4 June 2003.
12. According to the schedule set by the Indonesian Election Commission (KPU), on 1 April 2003, voter registration begins. On 30 April 2003, the Provincial KPUs were formally inaugurated. The deadline for the political parties to register for general elections was set for 27 September 2003. The legislative elections will take place on 5 April 2004. This will be followed by the first phase of voting for the president and vice-president on 5 July 2004. The second phase of voting for the president and vice-president will take place on 20 September 2004. The swearing in of president and vice-president will be held on 20 October 2004. See *The Jakarta Post*, 29 August 2003 and *Kompas*, 29 August 2003.
13. "Compromise Seals Election Bill", ibid., 5 July 2003.
14. See Bambang Nurbianto and Adianto P. Simamora, " KPU gives House until March to Endorse Electoral Bills", *Jakarta Post*, 14 January 2003.
15. See, "PDIP Perjuangan Considers Coalition by Offering VP Seat in 2004 Election", ibid., 12 March 2003.
16. See also "Sri Sultan HB X Presiden Pilihan Anak Muda", *Gatra* 13, no. 48 (October 2002), pp. 24–33.
17. See, "PDIP Perjuangan Considers Coalition by Offering VP Seat in 2004 Election", ibid, 12 March 2003.
18. See "PDIP Melirik Koalisi dengan Islam dan Timur", *Kompas*, 19 July 2003.
19. *Jakarta Post*, 12 March 2003.
20. See ibid., 3 January 2003.
21. Interview with Dr Sukardi Rinakit, Executive Director of the Centre for Policy Studies, which has been conducting the polls in the last two years. Political observers do not see any fundamental change in the political calculus following Wiranto's good showing at the Golkar convention as he will most likely be tied down by problems associated with East Timor and his close association with the Suharto era. At the same time, Wiranto's importance as a 'king maker' should not be underestimated as he still commands much respect in the Indonesian military and public at large (especially in Java).

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Contemporary Southeast Asia 25, no. 3 (2003): 449–72 ISSN 0219-797X

A Glass Half Full: Indonesia-U.S. Relations in the Age of Terror

ANTHONY L. SMITH

The U.S. may be paying greater attention to Southeast Asia now than at any time since the end of the Vietnam War. Indonesia has assumed some prominence in the war against terrorism — both as a "model of moderation" in the Muslim world, and as a source of Jemaah Islamiyah (JI)-linked terrorism with presumed connections to Al-Qaeda. While there are examples of substantive cooperation between Indonesia and the U.S. in the war on terrorism, differences remain. The Bush Administration's plan to restore military-to-military relations has floundered on objections from Congress. Indonesia has refused to support U.S. military action in Afghanistan and Iraq, while the general public in Indonesia remain distrustful of U.S. foreign policy. While Washington now sees Indonesia as critical to its goals, the relationship is heavily complicated and requires careful management.

Introduction

In July 2003 five U.S. F-18 Hornets ventured too far into Indonesian airspace over Bawean Island in the Java sea and locked onto the Indonesian F-16s sent to intercept them. That the U.S. Ambassador, Ralph "Skip" Boyce, was summoned by Coordinating Minister for Political and Security Affairs, Susilo Bambang Yudhoyono, to explain the incident is not surprising. Ambassador Boyce promised that the U.S. Air Force would not fly over Indonesian land in the future without permission. However, below the level of cabinet, the incident ignited a heated debate. Some Indonesian members of parliament

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used the opportunity to deliver anti-U.S. speeches, with some even calling for sanctions against the United States. A number of members also posited the theory that the United States was flexing its muscle out of displeasure over Indonesia's recent decision to purchase some Russian aircraft for the Indonesian Air Force. These politicians used the incident, it appears, to capitalize on anti-U.S. sentiment in the country to improve their political fortunes. The incident demonstrates the careful manner in which Indonesia-U.S. relations must be managed, particularly in light of an emerging distrust of American intentions amongst the Indonesian population.

This article touches on some of the key themes and incidents that have emerged in the Indonesia-U.S. relationship in the aftermath of the terrorist attacks of September 11, 2001.[1] The impact of public opinion in Indonesia, keenly felt on the foreign policy process after the fall of Suharto, has been to constrain the actions of the Indonesian government in the types of support it can offer the United States. The Indonesia-U.S. relationship is complicated by distrust from the past (nationalist concerns) and suspicion that the U.S.-led war against terrorism is an attempt to advance American power and undermine the Islamic world (anti-colonial concerns). Some media commentators have spoken of a "pendulum" in Indonesia-U.S. relations, whereby there is both cooperation and discord in the relationship. U.S. wars in Afghanistan and Iraq have heightened sensitivities, as have pressures for accountability and human rights improvement. At the same time the Megawati government has cooperated with the United States in tackling the terrorist problem within Indonesia, especially after the terrorist attack in Bali in 2002.

Although the United States already regards Indonesia as strategically important in the war against terrorism, Indonesia is assuming a new relevance. The United States may now be paying more attention to Southeast Asia — with Indonesia featuring prominently — than at any time since the end of the Vietnam War. However, the U.S. government is hamstrung in the type of support that it can offer Indonesia, given constraints from the U.S. Congress on military-to-military relations, and rising anti-U.S. sentiments within Indonesia. Nevertheless, Indonesia is cited by U.S. officials as being crucial in the war on terrorism in two ways. First, Indonesia is viewed as a moderate Muslim majority country, whose toleration and democratization are hailed by Paul Wolfowitz, U.S. Deputy Secretary of Defense (and often the Bush administration's leading voice on Southeast Asia), as a "model of moderation."[2] In the aftermath of September 11, the U.S. obtained an important official condemnation from the largest Muslim country. Second, Indonesia has had its own problems with a "homegrown", but

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externally linked, terrorist group known as Jemaah Islamiyah. Washington worries that lack of state capacity will mean that Indonesia will be seen by terrorist groups as a haven. In seeking to deny haven and sanctuary to terrorist groups, Indonesia is one of the countries mentioned by U.S. officials as a prime area of concern.

Indonesia-U.S. cooperation in the war against terrorism has been difficult since it first emerged as an issue in the relationship. The Indonesian authorities have made significant progress in addressing the terrorist problem, but until the Bali blast in October 2002, key members of the Megawati administration and the Indonesian military were arguing that there was no international terrorist problem in Indonesia. Despite these types of setbacks, as well as ongoing skepticism from the general public and leading parliamentarians about the war on terror, U.S. officials almost always speak in praise of cooperation with Indonesia. At least in official statements, the glass is always half full.

The Background

Indonesia has always been important in U.S. calculations of security in Southeast Asia, and generally in the Asia-Pacific region. U.S. officials and commentators have consistently cited three factors for this. First, Indonesia's critical location vis-à-vis the Malacca Straits — vital for global shipping. Passage through Indonesia's waters allows access between the Indian and Pacific Oceans. Second, Indonesia's population and territorial size, the largest in Southeast Asia, makes it the cornerstone of ASEAN (the Association of Southeast Asian Nations). Third, Indonesia was a partner during the Cold War in U.S. attempts to check communist influences in Southeast Asia. Since 11 September 2001, Indonesia has become important for another reason: it is considered a vital component in Washington's war against international terrorism.

For Indonesia, the United States has been a dilemma since independence. Fears linger in Indonesia about the alleged American interference in regional rebellions in the 1950s and the events of the counter-coup in 1965, which ushered Suharto to power and left around one million Indonesians — suspected leftists and communists, as well as many caught up in the fray — dead. Sukarno increasingly chose to isolate himself from the United States as part of his non-aligned movement, while for his successor, Suharto, the United States was the key to economic recovery. After President Suharto took formal power in Indonesia in 1966, Indonesia-U.S. relations were close for the remainder of the Cold War, given mutual concern over communist expansion, and Indonesia's continuing reliance on the United States as a major source of trade and investment. Indonesia is quietly content

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with the general U.S. presence in the Asia/Pacific region. Rhetoric about global disarmament and a more equitable international order aside, and despite a vocal section of the Indonesian public that is distrustful of U.S. intentions, the government of Indonesia fundamentally sees the United States as a benign power, and a restraining hand on powers situated to the north.

However, as this writer has argued in the past, many commentators have over-simplified Suharto's foreign policy as being "pro-Western", or even that Indonesia was a U.S. "ally", glossing over the fact that Indonesia remained a non-aligned state with aspirations for leadership of the developing world.[3] Links with the West, although critical for Suharto's Indonesia, were only part of Jakarta's foreign policy. Despite Suharto's realignment of Indonesia away from the communist bloc and towards the United States, this was only ever a marriage of convenience for both sides. Suharto's paranoia vis-à-vis the threat of communism even outlived the Cold War, and was the glue in the Indonesia-U.S. partnership during the Cold War years, when they otherwise may not have had much in common. Indonesia's stated foreign policy goal is, after all, to remove all extra-regional powers from its region. Indonesia's desire for regional leadership was at odds with the Pacific Ocean becoming an "American lake"; however, U.S. force presence in Asia has been regarded as an important stopgap measure. While Indonesia adhered officially to non-alignment and "equidistance" between the superpowers, Indonesia, even in the post-Cold War era, has rhetorically challenged the nature of the global order. Indonesia has sought reform of the Security Council, urged the United States and other nuclear powers to focus on the danger of horizontal proliferation of nuclear weapons (alongside vertical proliferation), and to adhere to the Comprehensive Test Ban Treaty (CTBT).

Furthermore, Indonesia's dictatorial regime, under Suharto, was not a good fit by the end of the Cold War given Washington's increasing agitation for liberal democratic reforms with the demise of the communist threat. Criticism over East Timor saw an open split emerge between Washington and Jakarta from the early 1990s, while Suharto began to openly consider military purchases from non-U.S. sources. In this sense, a dip in the Indonesia-U.S. relationship predates the fall of Suharto in May 1998, but ironically, Indonesia's democratization — something heavily promoted by Washington — has complicated the relationship and constrained Jakarta's room for manoeuvre. At the end of the Cold War, events were to drive a wedge between Indonesia and America, with a number of bilateral tensions surviving into the era of democratization. The relationship was stable until the 1990s, when

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U.S. policies regarding human rights, particularly in East Timor, marked the beginning of open bilateral strains. In 1991 Indonesian troops gunned down more than 200 East Timorese near the Santa Cruz cemetery in Dili. In the midst of glaring international publicity, Washington cut military-to-military links the following year, and only partially restored them in 1995.

Indonesia's financial meltdown from December 1997 has had lasting political consequences. It generated both political change (Suharto left office in May 1998) and economic reform. The International Monetary Fund (IMF), offering one of its largest assistance packages ever, at US$43 billion, insisted on fundamental economic changes, including an end to subsidies, trade barriers and the sale of assets to foreign buyers. Many Indonesians, although largely angry at the avarice and corruption of the Suharto family, saw the resulting economic pain as at least partly the fault of the West. With the turbulence of these changes fostering in Suharto's resignation, his successor, B.J. Habibie announced that there would be a referendum in East Timor in 1999. While East Timor gained independence as the result of this vote, terrible violence at the hands of military-sponsored militia groups followed. United States International Military Education and Training (IMET) programmes, only partially restored, were suspended once more. The Clinton administration also put enormous pressure on the Indonesian government to accept a multinational peacemaking force (INTERFET: International Force East Timor), under Australia's leadership, to enforce peace in East Timor. Many Indonesians resented that dependency on the IMF could be used, as they saw it, to force Indonesia to accept the will of the international community (or, specifically, that of Australia and America).

Subsequent pressure from the United States to hold the officers involved accountable for their crimes raised the spectre of large power interference in Indonesia's domestic affairs. It is evident that most Indonesians, from the élite down to the masses, have failed to understand the exact nature of East Timor's departure from Indonesia. Most are unable to grasp that East Timor was annexed illegally in 1975, and that the vote by the East Timorese to leave the Republic of Indonesia in 1999 was not fixed by the Australian government. In order to give the impression that East Timor is an exceptional case, the U.S. has repeatedly expressed its respect for Indonesia's territorial integrity — particularly in the cases of Aceh and Papua (formerly known as Irian Jaya). Nonetheless, deep suspicions linger about America's ability to interfere in Indonesia, fears that converge with the instability and foreign interference in Indonesia's immediate post-independence era.

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Relations in the "Reformasi" Era

Upon assuming the leadership of the country in 1999, President Abdurrahman Wahid (also known as "Gus Dur") announced a "look towards Asia" policy, and announced various ill-defined groupings of countries that included Indonesia, India and China, and sometimes Singapore and Japan. While Wahid's personalized style often led to off-the-cuff foreign policy statements, the President was articulating, in a very important sense, Indonesian desires to counter U.S. influence — a sentiment that had developed within policy-making circles by the early 1990s.

On the back of U.S. pressure over East Timor, events in Palestine at the end of 2000 sparked a round of anti-U.S. demonstrations in Indonesia. The U.S. embassy in Jakarta closed for a short time. This closure drew criticism from the Wahid government — much of which was directed at the then U.S. Ambassador, Robert Gelbard — on the grounds that Gelbard was trying to tarnish Indonesia's reputation. This incident, coupled with the Ambassador's very public statements about East Timor and the need for accountability, saw a great deal of public comment about this "outspoken" ambassador. There was even a petition from parliament to have Gelbard removed. In the words of lower house (DPR) member Yasril Ananta Baharudin: "He has several times interfered in the country's internal affairs."[4] Despite this rising sentiment, there is no evidence that the Wahid administration was behind any of the anti-U.S. protests, and Wahid himself even appealed for calm. Nearly a year later, when Wahid was replaced by his vice-president, Megawati Soekarnoputri, Indonesia-U.S. relations were to enter a new phase.

Following the terrorist attacks of 11 September 2001, Washington kept on track a previously scheduled visit by President Megawati for that month — at a time when air traffic was effectively shut down. The symbolism of the leader of the world's largest Muslim nation touching down on U.S. soil and denouncing terrorism was considered by Washington to be of crucial importance. The Indonesian President denounced terrorism and expressed support for the United States. President Megawati's visit also included the announcement of a generous US$400 million trade-and-aid deal from Washington and the creation of the Indonesia-United States Security Dialogue. Yet it was clear that Indonesia's support in the war against terrorism would be a mixed bag from Washington's viewpoint.

A diplomatic row between the U.S. and Indonesia emerged in the aftermath of September 11 over the security of the American embassy in Jakarta. The embassy received a number of threats, while groups like Front Pembela Islam (FPI or Islamic Defenders Front) burned effigies in

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front of the embassy grounds. The FPI also signed up *jihadi* (Islamic militants) to fight in Afghanistan (and later Iraq as well), and may have been able to get some of its members into these battlefields. Threats to the U.S. embassy came on the back of threats made against U.S. citizens almost a year earlier in the city of Solo, in which the Indonesian police had failed to do more than ask FPI to stop their "sweeping" operations. The Indonesian security forces were quite slow to respond to these threats, which demonstrated an unwillingness to rein in the radical fringe in the aftermath of September 11. A law was subsequently passed in Indonesia that made it illegal to make threats against embassies and burn effigies.

Many in Washington were disappointed when Megawati returned to Indonesia and stated that her support for the United States did not extend to the looming war in Afghanistan. While international news media exaggerated the extent of street protests in Jakarta (aimed at the U.S. and British embassies), and tended to suggest they represented wider public opinion, there was little room for Megawati to move. Megawati could not count on the support of the Indonesian population to back up the United States in the counterattack against Al-Qaeda, through an invasion of Afghanistan. Surveys confirm that the Indonesian public largely opposed America's war in Afghanistan.[5] First, many Indonesians surveyed were skeptical about the nature of the terrorist attacks. Hasyim Muzadi, the leader of Nahdlatul Ulama (NU), Indonesia's largest Islamic organization, seemed to sum up opinion when he suggested that, without the evidence that Al-Qaeda was involved in September 11, retaliation could not be justified.[6] Rumours circulated in the aftermath of September 11, particularly among Internet users in Indonesia, that Israeli intelligence was behind the attacks, and that all Jews were sent text messages to stay away from the World Trade Centre on September 11.[7] Second, even when Osama bin Laden virtually confessed to the attacks, through various veiled statements to the media, there was no support for a U.S.-led invasion of Afghanistan. Many political and religious leaders argued that bin Laden's guilt should be determined in an international court, not through force of arms. Third, Megawati's political opponents used the events surrounding September 11 to put pressure on her. The Majelis Ulama Indonesia (MUI; Council of Ulama), a body set up by former president Suharto and with ongoing links to the opposition Golkar Party, even issued a *fatwa* (religious edict) for *jihad* against the United States.[8] Vice President and leader of the Islamist United Development Party (PPP), Hamzah Haz, undermined his own president by suggesting in the midst of her visit to the U.S. that the September 11 attacks might "cleanse" the United States of its "sins".[9] He later met with the arrested head of the Islamist militia group

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Laskar Jihad, Ja'far Umar Thalib, and visited the boarding school of Abu Bakar Ba'asyir, head of Jemaah Islamiyah (JI) — an Al-Qaeda affiliate. Hamzah Haz chose to make political mileage out of being seen to ignore the warnings of the international community. Megawati, as a woman and a nominal syncretic Muslim, has been vulnerable to the charge that she lacks Islamic credentials, and her opponents have indirectly tried to use this against her.

In Indonesia two overlapping themes generally feed into suspicion of U.S. motivations, especially as they relate to Afghanistan. For most Indonesians, Muslim and non-Muslim, there is a distrust of U.S. foreign policy by nationalist groups. The reported CIA involvement in attempts to undermine President Sukarno in the 1950s, and deep suspicions that the U.S. played a role in the counter-coup that took half a million lives in 1965–66, have left an indelible impression of U.S. meddling in Indonesian affairs. East Timor, hardships arising from the stipulations of the International Monetary Fund, and demands for accountability over human rights, are the latest manifestations. Also, a growing body of Muslim opinion in Indonesia believes that the United States, and the West in general, will intervene to defend Western interests or Christian populations, but fails to act when Muslims are in trouble. Generally this line was formed around the experience of East Timor, when in actuality the West has intervened a number of times on behalf of Muslim populations, for example, Somalia, Bosnia, Kosovo, and so on. Nonetheless, while many Indonesian officials view the U.S. military presence in the Asia/Pacific as benign, deep-seated suspicion about U.S. intentions still exists with regard to the Muslim world. Even moderates have expressed these types of views.

A major breakthrough in undermining terrorist operations in Indonesia was the arrest of Al-Qaeda operative and Kuwaiti citizen, Omar al-Faruq, in June 2002. Omar al-Faruq's revelations included: involvement in the 2000 Christmas Eve bombings in which churches were targeted in ten cities across Indonesia; an assassination attempt on Megawati; and plans for "large-scale attacks against U.S. interests in Indonesia, Malaysia, (the) Philippines, Singapore, Thailand, Taiwan, Vietnam and Cambodia."[10] However, many Indonesians dismissed stories of terrorists cells in Indonesia, including Omar al-Faruq's story which appeared in *Time* magazine, as a fiction. One prominent articulator of this view is the President's own sister, Rachmawati Soekarnoputri, who dismissed reports of radicalism within Indonesia as CIA "rumours" designed to undermine Islam and put Indonesia under U.S. control.[11] A leader of the NU, Salahuddin Wahid (brother of the former president of Indonesia), accused Washington of engaging in "propaganda tricks".[12]

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Domestic constraints have undermined President Megawati's ability to act more decisively and coherently regarding the problem of domestic terrorism. Indonesia's equivocation and inability to arrest even a handful of suspected terrorists also caused alarm in Singapore and Malaysia where, in early 2002, cells of JI activists were arrested. The Singapore cell had planned a series of attacks, including one on the U.S. embassy in Singapore. Singapore asked Indonesia to arrest JI's spiritual leader, Abu Bakar Ba'asyir, and JI's operations leader, Hambali. While the latter remained at large in Indonesia and was eventually arrested in Thailand, in the Ba'asyir case, the Indonesian government argued that the abolition of the Suharto era Anti-Subversion Law made it legally impossible to arrest suspects without proper evidence (something that is possible in Singapore and Malaysia both of which have Internal Security Acts). In May 2002 Singapore's leadership made open reference to Indonesia as a haven for terrorist cells, causing anger in Indonesia, and a reluctance in government circles to be seen to be caving in to foreign pressure.[13] This spat between Indonesia and Singapore was undoubtedly noted by U.S. officials. It is significant that Washington's approach to gaining the results it wants from Jakarta have been more genteel.

U.S. State Department officials, keenly aware of Indonesia's reluctance to acquiesce to "megaphone diplomacy", have, in contrast to Singapore's position, publicly praised the actions of the Megawati government. For example, on the first anniversary of the September 11 attacks, Ambassador Ralph Boyce thanked President Megawati and other Indonesian leaders for their stand against terrorism. Yet the embassy in Jakarta was shut down on the basis of information that a terrorist attack was probable. This event clearly demonstrates that whatever concerns Washington has about Indonesia's inability to rein in terrorist networks, it prefers to convey them through private channels.

Once the emotional reaction to foreign pressure died down after June 2002, more sober actions were possible. By this stage the debate over the U.S. war in Afghanistan had cooled, particularly when television images of the Northern Alliance liberating Afghanistan on the ground and Afghans celebrating the end of the Taliban were broadcast throughout Indonesia. The Megawati government stepped up cooperation with the U.S. in a number of ways. In early August 2002, U.S. Secretary of State, Colin Powell, visited Indonesia and announced aid of US$50 million over three years to assist Indonesia in counter-terrorist operations. Several prominent arrests were made in Indonesia, and the suspects delivered into U.S. custody. Prior to the Bali bombings, Indonesia had planned to introduce a new, more robust, anti-terrorism law to parliament — although, it is obvious that a tougher law was not

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required to arrest some *jihadi*. In the years following Suharto's departure from office, Indonesia's two most notorious Islamist militia groups, FPI and Laskar Jihad, have been able to break the law with virtual impunity. The evidence against leaders and members in both cases is incontrovertible, and yet they seemed untouchable. Such a situation points more to a lack of political will to rein in such radical groups. However, leaders of both groups have subsequently been arrested for violations of the law, including Laskar Jihad leader, Ja'afar Umar Thalib, who is charged with inciting a crowd to riot against a church. Laskar Jihad disbanded about a week prior to the Bali blast, but made public its dissolution immediately afterwards.

On 12 October 2002, around 200 people were killed in Bali when Jemaah Islamiyah operatives bombed a popular tourist nightclub. Among the dead were 88 Australians. This event was the catalyst for Indonesia's belated attempt to arrest terrorist suspects. Newspaper polls revealed that many either blamed the Indonesian military (TNI) for the blast, or even an American plot to tarnish Islam. However, for Megawati's cabinet it was a dramatic demonstration that *jihadi* groups, no matter how small, are a real threat within Indonesia. Immediately after the blast the Indonesian cabinet announced that not only was there a terrorist problem in Indonesia, but that it was linked to Al-Qaeda. Such an announcement, made as soon as it was, may have undermined later attempts to persuade the public that there was evidence that Jemaah Islamiyah actually existed, that it did carry out the attack, and that it is linked to Al-Qaeda. Nonetheless, the government has been supported by NU and Muhammadiyah — Indonesia's largest and most important Muslim groups. It is critical, in terms of dealing with Indonesia's homegrown terrorist networks, to bring the mainstream Islamic groups on side.

Washington's Dilemma: Military-to-Military Relations and the Global War on Terrorism

On 31 August 2002, a convoy was attacked near Timika in Papua, and two Americans and one Indonesian were killed. Although the assailants are unknown, suspicion soon fell on the Indonesian military. The U.S. Federal Bureau of Investigation (FBI), assisting the Indonesian police in the case, concluded that the TNI (Indonesia's military) had produced fabricated evidence — in particular, a local army commander produced the body of an alleged "assailant" who could not have possibly been involved in the attack. The corpse produced had been dead for up to an hour prior to the attack itself, and had a medical condition making it impossible to for him to walk freely through the forest. This incident is

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one of a series of problems that has plagued the Bush administration's plan to restore some level of military-to-military linkages. The Timika incident proved to be the key factor in a decision by Congress to deny aid to the TNI.

The Bush administration, even prior to September 11, recognizing the importance of Indonesia within the Asia Pacific region, explored the possibility of re-establishing military-to-military cooperation.[14] Isolation of the TNI had, after all, failed to bring about even the prospects for meaningful domestic reform of the TNI. When in 1999 the U.S. Congress voted to suspend military assistance, the Clinton Administration's Secretary of State, Madeleine Albright, had articulated a list of reforms necessary for a reconsideration, including improvement of TNI professionalism in dealing with regional conflicts and the bringing to trial of TNI officers responsible for the post referendum East Timor violence.[15] The Foreign Appropriations Bill 2000/01 of Congress was also amended in early 2000 to include the return of the East Timorese refugees from West Timor as another precondition. The death of three UN workers (including one American) in Atambua, West Timor, at the hands of TNI sponsored militias, brought added pressure for successful prosecution in this case.

America's war on terrorism has heightened interest in resuming military-to-military ties between the United States and Indonesia. The U.S. State Department has been aware for some time that bans on both IMET programmes and the sale of U.S. *matériel* have also been hugely unpopular within Indonesian society. They are regarded as a "stigma", and contribute to a widespread misconception that America had placed some kind of broader trade embargo on Indonesia. However, checking international terrorism has been the main impetus to find a way to partially restore military-to-military ties, even in the face of some important opposition in the U.S. Congress. Deputy Defense Secretary and former U.S. Ambassador to Indonesia, Paul Wolfowitz, has stated that the best way to ensure Indonesia's stability is to influence its military. The Bush administration in early 2002 asked Congress to approve a startup budget of US$8 million for military-to-military links. When Secretary of State Colin Powell visited Indonesia in August 2002, he announced US$50 million in assistance to the security forces, half of which was earmarked for the police. Powell made explicit mention of reforming law enforcement at this time. Given that a small number of *jihadi* can move through Indonesia, the breakdown of state capacity to enforce law and order remains an outstanding problem. Any assistance that can be given to both proper policing methods and the court system would go to the core of the problem.

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Commander of the U.S. Pacific Command, Admiral Thomas Fargo, has announced a plan to establish a small number of "Counterterrorism Fellowships" for TNI officers, to be taken up at either the Center for Civil/Military Relations or the Naval Postgraduate School. These courses, according to Admiral Fargo, would entail modules on democracy, the rule of law, and human rights.

None of these plans to restore links have been undertaken without reservation. The U.S. State Department's annual human rights reports on Indonesia contain less than flattering remarks about Indonesia's security forces. An extract from the introduction to the report for 2002 makes it plain:

> The government's human rights record remained poor, and it continued to commit serious abuses. Soldiers and police murdered, tortured, raped, beat, and arbitrarily detained both civilians and members of separatist movements. [...] Security force members also committed severe abuses in other conflict zones such as Papua, the Moluccas, and Central Sulawesi, but at reduced levels compared with the previous year. In Papua members of the TNI and the Brimob committed assaults, rapes, and supported militias, which raised fears of interreligious conflict.[16]

In the words of the U.S. Ambassador, Ralph Boyce, at the time of Powell's announcement of aid: "If this [military-to-military relations] comes to pass, this does not represent a clean bill of health for past TNI actions which continue to be of concern to us."[17] Admiral Fargo has stated that the military-to-military programme is designed to encourage "reform" and "accountability", and to enhance "professional capabilities"[18] — a clear signal from the United States that the TNI has a long way to go. Statements like this from U.S. government officials give the strong impression that dealing with Indonesia's security forces is quite a dilemma. Officials have continued to stress to Indonesia that they expect improvements in human rights for the restoration of IMET. Secretary Powell told the U.S. Senate on 30 April 2002 that it was the administration's desire to encourage Indonesia to avoid a repetition of the 1999 East Timor disaster in Aceh.

In striving to work out a means to work with the Indonesian security forces, the Bush administration faces a formidable obstacle in its own Congress. The Leahy Amendment, namely that U.S. defence personnel cannot train with units that have committed human rights abuses, imposes an additional legal restraint. In June 2003, the Senate Foreign Relations Committee blocked the release of US$600,000 until justice is found in the Timika case. Mrs Spier, widow of one victim of the Timika attack, Ricky Spier, met with members of the Senate Foreign

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Relations Committee prior to the vote. After this meeting the Committee voted unanimously to block funds earmarked for the training of Indonesian officers.[19] The Bush administration will struggle to overcome such strong opposition in Congress, and this closes down available options for cooperation.

The practice of the United States to link military aid to domestic and military reforms has not gone down well with the TNI itself. TNI commander, Lieutenant General Endriartono Sutarto, has insisted that military aid "should not involve interference in our national affairs."[20] Indonesia's Coordinating Minister for Politics and Security, Susilo Bambang Yudhoyono, warned in September 2003 that congressional opposition to military-to-military relations will undermine bilateral relations between Indonesia and the U.S. Indonesia, despite its preference for U.S. equipment, has also seriously considered the purchase of alternative sources of weapons. In June 2003, Megawati created a minor scandal, known as "Sukhoigate" (which soon blew over), when she announced a deal with Russia to purchase, at the cost of US$197 million, four Sukhoi fighters, and two Mi-35 assault helicopters. The deal, which apparently bypassed the Indonesian Ministry of Defence, is a clear attempt by the Megawati administration to find weapons sources that are not so fussy about human rights standards.

The War in Iraq

Anger at the U.S. again brewed in Indonesia in early 2003, this time over plans to invade Iraq. Although Indonesia called on Iraqi President, Saddam Hussein, to open up to U.N. weapons inspectors, Indonesian Foreign Minister, Hassan Wirayuda, publicly poured cold water on U.S. claims of Iraqi intransigence, saying that the intelligence offered so far was less than adequate and that the work of the UN weapons inspectors was incomplete. As expected, Indonesia consistently opposed a U.S.-led attack that fell outside the UN process. On 20 March 2003, Megawati released a statement plainly stating that Indonesia "strongly deplores unilateral action against Iraq."[21] Equally, Indonesia has long been an opponent of sanctions against Iraq, which were imposed after the 1990–91 Gulf War. During Abdurrahman Wahid's term as head of state, the president made a visit to Iraq and used the occasion to champion the repeal of the sanctions regime — a longstanding element of Indonesian foreign policy. Reports of the plight of the Iraqi people under sanctions were well-known in Indonesia, and count as a source of anger against the United States. An Indonesian foreign affairs

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spokesman told the BBC that while the government has faced domestic opposition on many foreign policy issues in the past, on the issue of Iraq, the government was in complete accord with public sentiment.[22]

One of the issues that emerged from the war in Iraq, for Indonesia, was the whole issue of "pre-emption" and "intervention". The Indonesian government itself is probably not alarmed by any potential incursion from U.S. forces onto Indonesian soil. In fact, when Australian Prime Minister John Howard announced, in the wake of the Bali bombing, that Australia would adopt the right to strike outside its territory to defend Australia, both the Indonesian Vice President, Hamzah Haz, and Foreign Minister, Nur Hassan Wirajuda, stated in a press conference in early December 2002 that Australia's "plan to attack neighbouring countries" was merely rhetoric — albeit somewhat alarmist. The Megawati administration has never argued that the United States (or Australia) poses a traditional military threat to Indonesian territory. The primary concern over the Iraq intervention is what it means for state sovereignty and the way in which U.S. global actions will play out with the wider masses in Indonesia — whose power, when exercised, still causes considerable angst for Jakarta's political élite.

Public sentiment over Iraq explains much about Indonesia's reaction to Iraq. What is significant is that Indonesian officials made it clear that Indonesia would have accepted a second United Nations Security Council (UNSC) resolution — a resolution that was not forthcoming. An important question to consider is why a UNSC approved resolution for war in Iraq would have been more palatable than U.S. unilateralist "preemption". A UN stamp of approval over Iraq would have made it easier to present to the Indonesian public, given that such a broad section of the public was opposed to the war. It is important to note, however, that Indonesia's mainstream Muslim groups, NU and Muhammadiyah, not only rejected Osama bin Laden's call for violent opposition to the United States, but urged their followers to regard Iraq as a political, and not religious, struggle. Megawati, and some members of her cabinet, in opposing the Iraq War, made the same point that the conflict should not be seen in confessional terms. However, the fear, publicly expressed by both civic and religious leaders in Indonesia (and elsewhere in Southeast Asia), was that war in Iraq would lead many Southeast Asian Muslims to view the conflict as being essentially religious in nature.

Commentators across Indonesia's political spectrum condemned U.S. plans to invade Iraq. A sampling of more liberal voices gives some indication as to the depth of feeling. The respected magazine

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Tempo urged its readers to ponder the death and maiming of innocent civilians when buying Coca-Cola or some similar American product, but urged readers not to utilize violence against places selling American products or against American citizens themselves.[23] In the same issue of *Tempo*, one of Indonesia's most respected analytical columnists, Goenawan Mohamad, pondered over why the U.S. felt that Iraq was a threat.[24] He concludes that it is a convergence of the defence industry, Christian fundamentalism, and the need for the Bush administration to concoct a foreign devil. Despite the U.S. ambassador's explanations to the Indonesian public, through the media, that the U.S. was "liberating" Iraq, Nurcholish Madjid, one of Indonesia's most respected neo-modernist Islamic scholars and noted advocate of pluralism and democracy, termed the U.S. action in Iraq as an act of "aggression".

Official Indonesian government commentary on Iraq did little to alert the public to the horrors of Saddam Hussein's regime. For example, the Indonesian Ambassador to Baghdad, Dachlan Abdul Hamied, praised Saddam's intellectual ability in an interview and added that: "Saddam Hussien is a benevolent person. That's what makes Iraqis so willing to die for Saddam. His policies are seen to be pro-people."[25] The ambassador, in particular, praised Saddam for not lifting utility prices (somewhat reminiscent of the praise heaped on Mussolini's train schedule). When the interviewer asked about Saddam's execution of his sons-in-law, Dachlan Abdul Hamied replied, "I don't think that is cruel, just firm".

Reactions to the war in Iraq demonstrate a need for Washington to lift its image. But this is no easy task. In November 2002 the U.S. State Department purchased two minute slots on Indonesian television for film clips on Muslims living in the U.S. The point of these advertisements was for American Muslims to talk about their lives in the United States, and, in particular, their freedom to practice their faith. Although it is difficult to assess the overall impact, newspaper columnists pointed out that the advertisements may not have much impact because they are perceived as U.S. propaganda. There have also been rumours emanating from Washington that some U.S. officials have argued for direct funding of moderate Islamic groups like NU and Muhammadiyah. In fact, at the time of Secretary Powell's visit in 2002, Muslim leaders such as Azyumardi Azra, rector of Jakarta's State Islamic University, and Syafi'i Maarif, chairman of Muhammadiyah, urged the U.S. to fund moderate Muslim organizations instead of the security forces as a means of influencing Muslim opinion. Such direct funding would, however, backfire, in that it would

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seriously tarnish the credibility of the moderate organizations. If moderate Islamic leaders are to be influential, it is important that they are seen to be independent of foreign funding sources.

Stability and Human Rights

A debate that has emerged in Indonesia in the aftermath of the J.W. Marriott explosion (5 August 2003) is whether or not to restore something like the old Anti-Subversion Law in order to deal with terrorist groups. Such a law, used in the past to imprison political activists and radical Muslim leaders, is still greatly unpopular with the public and raises the ghost of the Suharto regime. Yet key Indonesian officials have drawn a dichotomy between freedom and stability. Susilo Bambang Yudhoyono has spoken generally of the possible need to put human rights on the backburner in the interests of community safety. The national intelligence chief, Abdullah Hendropriyono, has advocated that powers of arrest be given to the intelligence services. The Defence Minister, Matori Abdul Djalil has stated: "Several times Indonesia has been attacked by an act of terrorism which causes a loss of life. Therefore it's an emergency. That's why I am brave to say this nation actually needs an Internal Security Act which provides authority to the security apparatus to take preventative measures before terrorist attacks take place."[26] The subtext of this discussion is obvious. Indonesian officials will often argue privately that the United States has created tension by insisting on human rights standards while insisting equally on clamping down on suspected terrorists — even in the absence of courtroom evidence.

Nonetheless, even after the realization that Indonesia was a critical link for the U.S. war on terrorism, the United States has continued to press for improvements in human rights as well as improvements in Indonesia's democratization. In August 2002, the U.S. State Department expressed disappointment over the Ad Hoc Human Rights Trials for East Timor stating that the trials had failed to utilize fully resources and evidence available.[27] Although U.S. officials have declined to comment on the substance of the trials themselves, or specific verdicts, Indonesia's trials for East Timor have generally been at odds with the accepted account of what occurred in the territory in 1999. The TNI officers found guilty (and currently free on appeal) were convicted on grounds of negligence. The court never accepted that elements of the TNI had organized militia violence, merely that they had failed in their duty to stop it. The U.S. has also exerted pressure over the trials for TNI officers involved in the assassination of Papuan leader, Theys Eluay (who was

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killed in 2001). In more recent times, Indonesia's sentencing of the Acehnese political dissident, Muhammad Nazar, to five years in jail, earned a high level rebuke from the United States. The State Department, Richard Boucher, stated that the U.S. "regrets" the verdict, and expressed concern that this is part of a pattern: "This is the latest in a series of convictions and prison sentences for peaceful expression of antigovernment views in Indonesia."[28]

A statement by President Bush, at the time of the signing of Aceh's Cessation of Hostilities Agreement (COHA), in December 2002, commended the Megawati government and the people of Aceh for "choosing the path of reconciliation over the path of violence."[29] But the peace process did not last and Jakarta launched a major military campaign in the province. This provoked some public criticism from Washington. Wolfowitz repeated the earlier statements of U.S. government officials (including that of Ambassador Boyce), over the situation in Aceh, arguing that the military solution would not work — as Aceh cannot be quelled with military force.[30] While recognizing Indonesia's sovereign territory — an important preface for any U.S. official referring to Aceh — the Deputy Secretary urged that a "political solution" be found for the problem.[31] This essentially means that the United States would prefer a resumption of the negotiated settlement and an end of the heavy handed military campaign. Wolfowitz went further and recommended that Indonesia reopen the province to NGOs.

The Aceh case illustrates another source of consternation between Washington and Jakarta. While the U.S. government has officially designated Jemaah Islamiyah a terrorist organization, Indonesia has been unsuccessful in getting the U.S. to put the Free Aceh Movement (Gerakan Aceh Merdeka or GAM) on Washington's official list. Attempts by Jakarta to label the rebellion in Aceh as "Islamic" and a case of "terrorism", and thus draw the link to the current U.S. war against "Islamic terrorism", have not found fertile ground in Washington. This has clearly disappointed Indonesian officials. Jakarta's main stated objection to U.S. policy on terrorism is that Washington will only classify groups as "terrorist" within a narrow set of circumstances. While U.S. officials are not blind to atrocities committed by GAM, they are aware that the Indonesian military is also guilty of ignoring human rights (see the various U.S. State Department's human rights reports) and that the military "solution" has often backfired. Aceh is seen by Washington as primarily a separatist struggle and not linked to the goals of Al-Qaeda. If Washington were to formally back the Indonesian military operation against "terrorists" in Aceh, there is a risk that this will alienate the Acehnese people and anger the GAM organization that is currently not linked to the Al-Qaeda "jihad" against western interests.

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Jakarta's main objection relates precisely to this point — that the United States will only classify a group as "terrorist" if it directly threatens U.S. interests. The Indonesian government continues to maintain that while Al-Qaeda is worthy of condemnation, there is a double standard in the U.S. policy.

However, the U.S. has, in Indonesia's case, been careful about use of the terrorist label. For example, extremist Islamist groups like Laskar Jihad and FPI are not listed as such. (Not that there is any pressure from Jakarta to do so.) In an interview, Wolfowitz was asked if Laskar Jihad was a terrorist organization. He answered that:

> I think the simple answer to "is it a terrorist organization?" is no. It is an organization that has engaged in some disruptive activity? I think the answer to that is yes. I know there are some Indonesians who very much don't like that sort of activity, who nevertheless feel they [Laskar Jihad] act more out of ignorance and more out of reaction to the difficult economic and social conditions in the country than out of a deep-seated sort of malice. ... I know Indonesians whose opinions I respect a lot who think these people could be educated and persuaded to a different course of action. That's the reason why it's very difficult for people operating from the distance ... to step into the middle of a country and make those kinds of judgments.[32]

Laskar Jihad's operations in Ambon and elsewhere were, of course, more than just "disruptive". They are guilty of abuses against non-combatants. However the point is that the United States has taken great care in the case of Indonesia to reserve the "terrorist" label for Al-Qaeda linked individuals and groups in order to avoid being seen to support government actions (in the case of Aceh) or simply adding sundry Islamic groups to the list of terrorist groups (in the case of Ambon).

That the U.S. must tread carefully in relation to Indonesia's regional problems is seen in the often expressed concern about the possibility that Western power may break Indonesia up. President Megawati has recently blamed foreign influences for fanning the flames of separatism in both Aceh and Papua.[33] This fear is also expressed by parliamentarians, and is often directed primarily at Australia — due to events in East Timor, and the role of many Australian citizens in Papua — but the United States is sometimes cast in the supporting role. The threat cited by many nationalist politicians is not military, but one of "soft power" influences from non-governmental organization (NGO) groups in the West. (Although some more far-fetched scenarios see the hidden agendas of various Western governments in all of this.) Indonesia's primary security concern revolves around the separatist

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movements in Aceh and Papua, and in order to counter the influence of NGOs, Indonesia has invested a great deal of diplomatic time and energy into assurances from the United States, and the rest of the international community, that it respects the sovereign territory of the Republic of Indonesia.

The Importance of Indonesia

The bomb blast at the Marriott hotel in Jakarta on 5 August 2003 was a dramatic demonstration that the *jihadi* threat still exists in Indonesia.[34] Although such radical versions of political Islam remain extremely weak politically (in fact, groups advocating violence enjoy no parliamentary representation), small numbers can create a lot of physical damage. The concern of the United States is not that large numbers of Indonesian Muslims will be attracted to Osama bin Laden's ideas, but that they will continue to explain away terrorist incidents as the work of foreign agents, or perhaps the TNI, rather than of a homegrown terrorist organization. Wolfowitz is on record as saying that while Jakarta is more serious about the terrorist problem after the Bali blast, "far too many Indonesians" are yet to accept that there is a threat from terrorists.[35]

To date, it can be seen that the Indonesian government has made progress as far as Washington is concerned. Of the nearly 130 JI operatives arrested in Southeast Asia, around 100 are in jail in Indonesia. Indonesian Foreign Minister, Hassan Wirajuda, told a BBC interviewer in September 2003 that despite international protests over the light sentence for JI spiritual leader, Abu Bakar Ba'asyir, Indonesia had not only rounded up larger numbers of terrorists than its neighbours but had successfully prosecuted the operatives in the Bali blast case under the due process of law.[36] He did express regret that Abu Bakar Ba'asyir's sentence was too lenient — Ba'asyir received a four-year sentence, given the paucity of evidence of his direct involvement in acts of terror, but is currently free on appeal. The arrest of Hambali (an Indonesian citizen) on 11 August 2003 in Thailand, where he was apparently planning to target Bangkok's APEC meeting, was another breakthrough in undermining JI's Indonesia network. However it does create a potential problem — so far Indonesian authorities have not had access to Hambali.

The United States has encouraged Indonesia to enter into a series of bilateral and multilateral partnerships in order to counter JI's regional linkages. The ASEAN Counter-terrorism Training Centre in Kuala Lumpur, established on 1st July 2003, has been cited by U.S. officials as a good example. Indonesia has entered into a number of multilateral understandings on intelligence sharing and information exchange

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with its ASEAN partners. Peer pressure from key ASEAN neighbours has undoubtedly played a part in Indonesia's current prosecution of terrorist cells.

As mentioned earlier, it is clear that Indonesia has assumed a new prominence in Washington. Indonesia is considered a critical test case in the war against terrorism — not just as a "model of moderation" but as a country of concern. No one in the Bush administration is suggesting that Indonesia will find common cause with bin Laden, but it is Indonesia's state capacity that has U.S. officials worried. Wolfowitz mentioned to the press in early 2002 that, after Afghanistan, the U.S. would focus on denying "sanctuary" to terrorists groups, and specifically mentioned Somalia, Yemen, Indonesia, and the Philippines.[37] The U.S. *National Strategy for Combating Terrorism* (February 2003) talks of terrorists seeking out states, post Afghanistan, that lack the capacity to curb their activities.[38] It also addresses the "underlying conditions" that allow terrorists to find sanctuary, which equally applies to Indonesia:

> At the base, underlying conditions such as poverty, corruption, religious conflict and ethnic strife create opportunities for terrorists to exploit. Some of these conditions are real and some manufactured. Terrorists use these conditions to justify their actions and expand their support. The belief that terror is a legitimate means to address such conditions and effect political change is a fundamental problem enabling terrorism to develop and grow.[39]

The document also notes that a solution to the Palestinian issue is most pressing in terms of appeasing Muslim feelings, which in Indonesia's case is arguably the issue that could most influence public opinion about the intentions of U.S. foreign policy.

According to Wolfowitz and others, the intention of JI is to see democracy fail.[40] Official statements from the Bush administration lead to the conclusion that Indonesia, as Wolfowitz's "model of moderation", is a torch bearer for democracy and secularism within the Muslim world. The trouble with Indonesia is that, while it is a leading example of secular government, it has not always been the most ideal role model for good governance across the board. The Bush administration will continue to look at ways to foster stronger cohesion, even if the prospects for this are limited.

Conclusion: Implications for the Bilateral Relationship

Indonesia has not been noted for its anti-Americanism in the past, but this phenomenon has reared its head more strongly during the past few years. Although certain political leaders and media sources have

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attempted to make political capital out of this, there is little evidence that the Megawati administration has in any way attempted to fan anti-U.S. sentiment. In fact successive governments in Indonesia have attempted to keep this under wraps to some extent. The primary drivers of this new anti-Americanism are impressions that the U.S. seeks to weaken Islam, and mistrust based on U.S. activities regarding developments in Indonesia itself. For example, suspicions have always lingered about CIA involvement in Indonesia during the 1950s and 1960s. It is not wholly surprising, therefore, that there is disbelief in Indonesia over evidence released by American sources about Al-Qaeda links in Indonesia. After the Bali blast, rumours of CIA involvement to tarnish Islam were rife and openly reported in daily newspapers.

Despite substantial advances by the Indonesian government in attempting to dismantle terrorist cells, the blast in Bali and at the Marriott hotel, on Indonesian soil, have so far failed to completely convince the Indonesian public of the dangers that radical groups pose. Added to this is the widespread perception that U.S. foreign policy is co-religionist to the extent that America will conduct humanitarian intervention to save Christian populations, but not Muslims (a misconception based almost entirely on the experiences of East Timor and Palestine). Thus, many see the global war against terrorism as a part of a wider anti-Islamic strategy. Given these attitudes, Indonesian public opinion makes it difficult for the Indonesian government to unequivocally support U.S. foreign policy. It is out of the question that Washington could have realistically expected support from Jakarta for its military campaigns in Afghanistan and Iraq. For example, the Indonesian government consistently urged that the U.S. find a peaceful, and multilateral, solution to the Iraq crisis, and has issued justifiable warnings that a unilateral action will see a public backlash amongst the Indonesian public. While the invasion of Iraq further complicated U.S.-Indonesia relations in the lead up to that conflict, the swiftness of the war enables relations to return to a degree of normalcy.

These circumstances explain how public criticism by the United States of Indonesia's apparent failures to check terrorism would be entirely counter-productive. The U.S. will have to exercise patience and caution with the Megawati administration, which is potentially vulnerable to domestic opponents who have already tried to exploit anti-American sentiment. While avoiding megaphone diplomacy, Washington will have to remain content with assisting and encouraging Jakarta from behind the scenes. This would follow the pattern already set by U.S. officials. The Megawati government cannot possibly stand if it is perceived to be constantly caving in to foreign pressure, *especially* from the United States.

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"Winning hearts and minds", an old cliché, is often cited as being important for the United States to win the war against international terrorism. This is no more evident than in the case of Indonesia, largely a moderate Muslim country, where distrust of U.S. policy has been a real obstacle to closer Indonesian-U.S. relations. But Washington's ability to appeal to ordinary Indonesians is limited. Convincing Indonesians to take the threat seriously may rest with their own community leaders. One positive development since the Bali and Marriott bombings has been the move by the most important Muslim groups, particularly NU and Muhammadiyah, to denounce groups that use violence. Both NU and Muhammadiyah issued joint statements after each terrorist incident to denounce violence in the name of religion. In encouraging such developments, the power of the U.S. is limited — after all it is the messenger, and not just the message, that is critical in this case. If important Muslim clerics are to voice their opposition to the radical fringe, their independence from the U.S. will be important for them to carry any credibility. The struggle within Indonesia over the war against terrorism has been ongoing since September 11. Yet the Bali blast (and quiet international pressure) has tipped the balance of power in favour of the moderate political élite and mainstream Muslim organizations. The upshot of this has been the arrest of key JI suspects, as well as the arrest of Laskar Jihad's leadership and its disbandment.

Military-to-military relations, a political minefield in the United States, could actually help improve America's stock within Indonesia — although congressional approval cannot be taken for granted. Not only do some Indonesian NGO activists argue that U.S. military contact with the TNI might be the only way to see change (however slow) within Indonesia's praetorian military, the Indonesian public would respond well to the removal of sanctions imposed after East Timor. As is well recognized in Washington, however, military-to-military ties must be balanced against other objectives, principally preserving (and furthering) democracy and improving human rights.

In the final analysis, the Bali blast in particular has seen a government in Jakarta which is more attentive to the problem of terrorism, but the Megawati government still faces major constraints on the type of support it can give to the U.S. The Indonesian political élite has been divided on how best to respond to the terrorist threat, but in the aftermath of the Bali blast, key members of the Indonesian government have shown more resolve. On balance, the attack on Indonesian soil gives the Megawati government more political ability to act against radical groups. However, a substantial body of opinion in Indonesia remains to be convinced that Indonesia faces a problem of international terrorism — principally in the form of Jemaah Islamiyah — inside its own borders.

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NOTES

1. The views expressed in this article are those of the author alone and do not reflect the official policy or position of the Asia-Pacific Center for Security Studies, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. government.
2. "Wolfowitz: Countering the Dallas Perception", *Laksamana*, 17 May 2002. (The title of this article refers to a remark Wolfowitz gave that many in Indonesia have had their views of America shaped by watching the popular 1980s television serial *Dallas*.) Wolfowitz has a well known affinity for Indonesia. For example, in relation to Indonesia's terrorism problem he once said: "If Indonesians don't do something to stop terrorism in Indonesia, it's going to have terrible consequences for democracy in that wonderful, important country that I love so much." "No. 2 Pentagon official says Indonesia must act against terrorists", *Associated Press*, 5 November 2002.
3. See Anthony L. Smith, "Indonesia's Foreign Policy under Abdurrahman Wahid: Radical or Status Quo State?", *Contemporary Southeast Asia* 22, no. 3 (December 2000): 498–526.
4. "RI Calls on U.S. to Reopen its Embassy", *Jakarta Post*, 4 November 2000, p. 1.
5. See *Pew Global Attitudes Projects*, "What the World Thinks in 2002", 4 December 2002 — this report shows that two-thirds are opposed to the U.S. response.
6. Heri Retnowati, "Interview — Indonesian Muslim Chief Warns U.S. of Backlash", *Reuters*, 27 September 2001.
7. See "Jew Conspiracy Rumours Rampant", *Reuters*, 17 October 2001.
8. The term *jihad* in Islam simply means to "struggle". The Indonesia Council of Ulama failed to clarify what they meant by *jihad*, which is usually interpreted as meaning "holy war" in the West.
9. "Megawati Off to U.S. Amid Controversy Over Deputy's Remarks", Associated Press, 17 September 2001.
10. Taken from CIA documents seen by *Time*. See "Confessions of an al-Qaeda Terrorist", *Time*, 15 September 2002.
11. "Rachmawati: 'Rumors Disseminated by CIA are Like Rumors Disseminated Prior to G30S/PKI' ", *Tempo Interactive*, 20 September 2002. It should be noted that Rachmawati is a political opponent of Megawati, even to the extent of publicly condemning her sister's ascension to the presidency in 2001.
12. Raymond Bonner, "Indonesians Distrust Report by C.I.A. on Qaeda Suspect", *New York Times*, 24 September 2002.
13. Singapore's Senior Minister, Lee Kuan Yew, also made the inference in various speeches that growing Islamic piety in the region posed a danger. Many in Indonesia saw this as an explicit linkage between Islam and terrorism. "Indonesia says rift with Singapore due to differing perceptions", *Jakarta Post*, 25 February 2002.
14. See for example "Testimony to Senate Armed Service Committee for Adm. Fargo's confirmation as PACOM", 26 April 2002, <http://www.pacom.mil/speeches/sst2002/fargoconfirmation.pdf>.
15. See Secretary of State Madeleine Albright, "Press Stakeout Following Bilateral Meeting with Indoensian Foreign Minister Shihab", Bangkok, Thailand, 29 July 2000. Released by the U.S. State Department.
16. *Indonesia: Country Reports on Human Rights Practices — 2002*, Bureau of Democracy, Human Rights, and Labor, U.S. Department of State. 31 March 2003. <www.state.gov/g/drl/rls/hrrpt/2002/18245.htm>.
17. "U.S. Ambassador: Aid To Indonesia Military To Support Reform", *Associated Press*, 7 August 2002.
18. Admiral Thomas Fargo, Commander, U.S. Pacific Command, Press Conference, Jakarta, Indonesia, 15 August 2002. <www.pacom.mil/speeches/sst2002/020815fargo2.htm>.

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19. "U.S. Steers Indonesia away from War against Separatists", *New York Times*, 30 May 2003.
20. "Mega installs Endriartono as TNI Chief to Replace Widodo", *Jakarta Post*, 8 June 2002.
21. "Indonesia Strongly Deplores Unilateral Action against Iraq", Megawati Soekarnoputri, 20 March 2003. Accessed from Department of Foreign Affairs, Republic of Indonesia, <www.deplu.go.id>.
22. BBC Radio, World Service, East Asia, 14 February 2003.
23. "Moral Opposition", *Tempo*, 7 April 2003, p. 10.
24. Goenawan Mohamad, "America", *Tempo*, 7 April 2003.
25. "Dachlan Abdul Hamied, 'Saddam is an Intelligent Manager'", *Tempo*, 7 April 2003, p. 33.
26. Matthew Moore, "Human Rights the Next Casualty?", *The Age*, 16 August 2003.
27. "U.S. Disappointed by East Timor Verdicts", *Laksamana*, 20 August 2002.
28. Fabiola Desy Unidjaja, "U.S. Regrets Verdict on Aceh Activist", *Jakarta Post*, 4 July 2003.
29. Statement by the President, The White House, December 2002.
30. "U.S. Steers Indonesia away from War against Separatists", *New York Times*, 30 May 2003.
31. "Transcript: Wolfowitz Says Terrorists Don't Want Indonesian Democracy", *Washington File*, 30 May 2003.
32. Interview with Paul Wolfowitz in "Active Engagement: U.S.-Indonesia Relations", *The Brown Journal of World Affairs* 9 no. 1 (Spring 2002), pp. 5–6.
33. Fabiola Desy Unidjaja, "Foreigners Fanned Separatism: Megawati", *Jakarta Post*, 24 September 2003.
34. After the Marriott blast the U.S. embassy announced aid of US$500,000 towards medical aid, including ten million Indonesian rupiah per victim. The majority of the victims were Indonesians.
35. "RI must Stop Denying Presence of Terrorists, says Wolfowitz", *Jakarta Post*, 8 November 2002.
36. Quoted in "Nearly 100 Terror Suspects Arrested: Foreign Minister", *Jakarta Post*, 22 September 2003.
37. "After Afghanistan, US Likely to Focus on Indonesia, Philippines: Wolfowitz", Agence France Presse, 8 January 2002.
38. *National Strategy for Combating Terrorism*, White House, (February 2003), p. 8.
39. Ibid, p. 6.
40. "Transcript: Wolfowitz Says Terrorists Don't Want Indonesian Democracy", *Washington File*, 30 May 2003.

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Contemporary Southeast Asia 25, no. 3 (2003): 473–88 ISSN 0219-797X

Broadening Philippine-Australia Defence Relations in the Post 9/11 Era: Issues and Prospects

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The Philippines and Australia have a strong history of diplomatic and economic relations. Yet, their defence relations are still weak. Although the 1995 Defence Cooperation Agreement has provided the two countries a framework to cooperate closely on defence, the scope of their cooperation is still confined to confidence-building measures. There is a need to broaden their defence relations in the light of their mutual recognition of strategic interests in regional security, particularly in the context of the war on terrorism in Southeast Asia. Strong Philippine-Australia defence relations will expand the web of bilateral defence relations of like-minded states in the Asia Pacific to foster regional peace and stability. The Philippines and Australia have a strong potential for being defence partners in regional security by virtue of geographic proximity and cultural familiarity. But the glue that could help bond the two countries more closely is their shared regional security perspective.

September 11 and the Spectre of Terrorism

Since the terrorist Bali bombings in October 2002, Australia has been initiating various strategic initiatives to strengthen its web of bilateral defence relations in Southeast Asia. Canberra has signed an anti-terrorism agreement with Southeast Asian countries like Indonesia, Malaysia, the Philippines, and Thailand. This is part of Australia's overarching strategy of expanding its bilateral relations in Southeast Asia to advance its national interests which are perceived

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to be threatened by traditional and non-traditional security issues in Asia, particularly the spectre of international terrorism.[1] Among countries in the region, the Philippines has the potential to forge a defence partnership with Australia in Southeast Asia due in large part to geographic proximity and cultural familiarity. Yet, the deeper basis for broadening their defence ties lies in their shared regional security perspectives.

This article examines the state of Philippine-Australia defence relations since September 11 and identifies some issues and prospects for expanding their defence relations. The article argues that besides geographic proximity and cultural familiarity, the more pressing convergence lies in their security interests in the region, especially in the context of the global campaign against terrorism. It concludes that the broadening of Philippine-Australia defence ties can contribute to the web of bilateral defence relations of like-minded states in Southeast Asia necessary for the promotion of regional peace and stability.

The Origin of Philippine-Australia Defence Relations

Although the Philippines and Australia have robust interactions in various multilateral forums such as the ASEAN Regional Forum (ARF), the Asia Pacific Economic Cooperation (APEC), and the ASEAN-Australia Dialogue, among others, broadening their bilateral relations is still a more manageable and efficient way to advance their common security interests. In fact, security studies theory argues that sovereign states adopt bilateralism because there are interests that are better advanced by maintaining separate relationships with other actors.[2] Moreover, bilateralism creates a "hub and spokes" pattern of alliance development and maintenance for states to pursue their common security interests.[3]

Philippine official sources trace the origin of Philippine-Australia bilateral relations to the 19th century when Australian missionaries came to the Philippine islands to proselytize the inhabitants. Although commercial relations were already recorded during that period, the scale of bilateral trade between both countries was very modest.[4] Trade relations only improved in the early part of the 20th century when Australia became the Philippines' fifth largest source of imports, particularly of coal and beef.[5]

Australia became an important part of Philippine history when President Manuel L. Quezon established his government-in-exile in Australia at the height of the Japanese occupation of the Philippines in the 1940s. During the Second World War, Australia, as an American ally in the Asia Pacific, deployed some troops to the Philippines to help

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liberate the country from the Japanese imperial forces. When the Philippines achieved its independence, Canberra opened a consular office in Manila in 1946 and assisted the economic reconstruction of the Philippines within the framework of the Colombo Plan established in 1951.

The defence relationship of both countries officially started in 1954 when they joined the Southeast Asia Treaty Organization (SEATO). The formation of SEATO was an American experiment of alliance strategy in Southeast Asia using the North Atlantic Treaty Organization (NATO) of Europe as its model.[6] The Philippines and Australia joined the organization because both shared the perception of common threat posed by communist expansionism in Southeast Asia. Moreover, the Philippines and Australia had close defence ties with the United States.

SEATO suffered its demise in 1977 when the organization failed to pursue constructive intervention in Indochina. As a result, Philippine-Australia defence relations became practically moribund while bilateral relations were increasingly shaped by diplomatic and economic imperatives. Their diplomatic relations started to improve when the Philippines opened its embassy in Canberra in 1962, and further developed when Australia joined the Philippines Assistance Program (PAP) established in 1989. Filipino migration to Australia increased to 103,942, as of 2001.[7] According to the Philippine Bureau of Immigration, Filipinos ranked eighth among the source of migrants to Australia,[8] making the country another land of milk and honey for Filipinos.

When both countries signed the Philippine-Australia Trade Agreement in 1975, their two-way trade also dramatically improved. In 1998 alone, Australia ranked 17th as an export destination for Philippine exports and 11th as a source of Philippine imports.[9] Their economic relations further grew when both signed the Philippine Investment Promotion and Protection Agreement in 1994. In view of the success of their bilateral relations in the diplomatic and economic spheres, they decided to widen the scope of their cooperation by signing a Memorandum of Understanding (MOU) on Defence Cooperation in 1995. The MOU established the foundation for the development of Philippine-Australia defence relations.

The State of Philippine-Australia Defence Relations

The 1995 MOU on defence cooperation is a landmark for the defence relations of both countries as it formalizes their defence cooperation which had long been neglected since the demise of SEATO. The 1995 MOU served as a useful basis to strengthen defence relations in the

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wake of strategic uncertainties emerging in the Asia Pacific as a consequence of the end of the Cold War and the demise of the Soviet Union. The MOU provides the overarching mechanism in the exploration of various opportunities to intensify their defence ties such as the mutual benefits inherent in cooperative defence activities and exchanges between their respective military establishments. Specifically, both countries agreed to cooperate in the following areas:

- Mutual access by units and personnel to each other's defence facilities, including facilities for refuelling and replenishment of ship and aircraft, diversion airfields for aircraft, and planned and emergency repair and maintenance of ships and aircraft;
- Participation in joint training and military exercises;
- Access by defence personnel, including exchanges of students and instructors, to training facilities and training courses in the country of the other Party;
- Exchange of information on defence matters;
- Cooperation in defence science and technology matters especially in areas where defence research and development can benefit from the unique environment possessed by each country; and
- Identification of common or similar requirements for defence-related goods and services as well as opportunities for Philippine and Australian companies to participate in meeting those requirements.

To provide policy direction and to initiate, coordinate and monitor the different activities carried out under the MOU, both countries established the RP-Australia Joint Defence Cooperation Committee co-chaired by a senior representative from each country. The Joint Committee is authorized to establish sub-committees to effectively address and implement their specific projects on defence matters. Thus, the Philippine-Australia Defence Cooperation Working Group (DCWG) was created to undertake programmes and projects on defence-related matters. However, most of the projects implemented were largely in the area of "soft" defence, primarily dominated by confidence building measures (CBMs). The most robust area of defence cooperation between the two countries is in the education and training of Filipino military officers and defence officials in Australia. Because of the MOU, Australia has become the major source of training and education of Filipino military officers and defence personnel. The quota for Filipino military officers undergoing training and education in Australia has tremendously increased by 300 per cent since 1995. Australia is, in fact, replacing the United States as the biggest provider of military education to the Armed Forces of the Philippines (AFP).

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As part of their CBMs on security issues, both countries have also conducted track two activities. Both countries conduct the annual security dialogues called Philippine-Australia Defence Dialogue on Security (PADS), initiated by their respective foreign affairs departments.[10] PADS has also provided a forum for their respective defence offices to discuss Philippine-Australia defence diplomacy. PADS pursued mutual sharing of perspectives on various security issues facing both countries ranging from regional conflicts like the South China Sea disputes, the Korean problem, the China-Taiwan conflict and the Kashmir dispute to other regional security concerns like the rise of China, the role of major powers and the creation of the ASEAN Regional Forum (ARF).

Although PADS provided a venue for Manila and Canberra to level off their expectations and to explore other avenues of defence and security cooperation, the conduct of PADS was rather moot and academic because no tangible bilateral defence cooperation matter was discussed beyond CBMs. In fact, PADS participants were reluctant to discuss controversial issues of their relations and were discreet in their articulation of security issues confronting them. Frank and candid discussions were avoided except for the enunciation of their official lines.

At the track two level, both countries also conducted the Philippine-Australia Strategic Forum (PASFOR) held at the National Defence College of the Philippines on 26–29 November 2001.[11] Like the PADS, the PASFOR dialogue has provided the two countries excellent forums to discuss their respective security concerns and to exchange views on various strategic issues facing the Asia Pacific region. Unlike PADS, however, PASFOR discussions were more frank and candid due to the principle of non-attribution and academic freedom. PASFOR discussed "hard" security issues like defence industry and procurement reforms, defence planning, defence budgeting and even the territorial limits of the Philippines. PASFOR also tackled "soft" security issues like transnational crime, maritime security, peacekeeping operations and the regional security outlook, among others.[12] In fact, Australian participants in PASFOR were noted academics reflecting the strategic importance of the Philippines for Australia.[13] Unfortunately, the PASFOR initiative was not sustained due to some changes in the priorities of both countries as a result of the global campaign against terrorism.

The PADS and the PASFOR initiatives could have served as valuable instruments in shaping the two countries' bilateral defence diplomacy programs had they been sustained. Unfortunately, the global campaign against terrorism and the American return to Southeast Asia halted the momentum of Philippine-Australia exchanges on

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regional security because the Philippines concentrated on reinvigorating its security alliance with the United States. As a result, Philippine-Australia defence exchanges have been marginalized and relegated to the periphery of Philippine defence diplomacy programs. Since September 11, the Philippines has been focusing its energy on reviving its defence alliance with the United States in order to build its capacity not only in countering terrorism but also in addressing various threats to its security, particularly the defence of the Kalayaan Island Group in the South China Sea. Thus, Philippine bilateral defence diplomacy since September 11 has been largely shaped by its relations with the United States, marginalizing Philippine defence relations with other countries, including Australia. Indeed, the cornerstone of Philippine defence diplomacy since September 11 is the strengthening of Philippine-American defence relations.

The reinvigoration of Philippine-American defence relations is, therefore, diminishing Canberra's role in Philippine defence diplomacy. This is quite unfortunate considering the fact that, after the American withdrawal from the Philippines in 1991, Australia extended various forms of assistance to the Philippine defence establishment. When the United States downgraded its military and defence relations with the Philippines after its withdrawal from Clark and Subic Bays, Canberra expressed willingness to enhance its defence relations with Manila. When the United States disengaged itself from the Armed Forces of the Philippines (AFP) defence capability development programs, the Australian Ministry of Defence signified its interest in supporting the Philippines in the implementation of the AFP Modernization Program.[14] When the United States reduced its slots for Filipinos in the International Military Education and Training Program (IMET), Canberra increased its slots for Filipinos undergoing defence education and training in various institutions in Australia. In short, Australia came to the rescue of the Philippines during the lowest point of Manila's bilateral defence diplomacy with the United States.

To sustain their strategic exchanges and to explore the future direction of Philippine-Australia defence relations after September 11, Manila's National Defence Office for Strategic Assessment and International Policies organized the Philippine-Australia Defence Engagement Talks on 6–7 May 2003 in Camp Aguinaldo, Quezon City.[15] At these talks, both countries reaffirmed their common values and shared interests in regional security and expressed their commitment to conduct strategic dialogues on a regular basis to broaden their defence ties. Although both countries have robust exchanges on various strategic concerns as part of the confidence building measures, there is a felt need to move forward and enhance their defence relations beyond the

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area of education and training. Geographic proximity and cultural familiarity are arguably factors conducive to a stronger relationship. Nevertheless, the most enduring basis on which to build broader defence relations is their shared perspective on regional security.

Geographic Proximity

Although Australia belongs to Oceania, its immediate strategic space is Southeast Asia. Canberra's 2000 Defence White Paper articulates the importance of Southeast Asia in Australia's strategic interests and objectives and describes the region as its immediate neighbour.[16]

By virtue of geographic proximity, Australia is conceivably a part of the Southeast Asian security complex "whose major security perceptions and concerns are so inter-linked that their national security problems cannot reasonably be analyzed or resolved apart from one another."[17] The October 2002 Bali bombings have demonstrated that an insecure Southeast Asia also means an insecure Australia. The 2003 Australia's Defence Update even reiterated the importance of Southeast Asia in the security of the country and stressed anew that Southeast Asia is Australia's immediate region. The Philippines can be a reliable strategic partner of Australia in regional security due to geographic proximity. Although Indonesia is the nearest neighbour of Australia in the strictest geographic sense, the two countries have not overcome their historic animosities. Australia-Indonesia relations rapidly deteriorated in the wake of the 1999 East Timor crisis.[18] Moreover, Australia's very close relationship with the United States is also complicating Canberra's relations with Jakarta. Like Australia, the United States heavily criticized Indonesia's handling of the East Timor problem resulting in the termination of their military ties. The fall-out in Australia-Indonesia relations and U.S.-Indonesia relations in the wake of the 1999/2000 East Timor intervention[19] has left an indelible mark in Indonesia's defence diplomacy vis-à-vis the two countries. This situation makes it difficult for Canberra to build closer and deeper defence ties with Jakarta.

Cultural Familiarity

As a former colony of the United States, the Philippines has long exposure to Western culture. This exposure to Western culture also created a profound impact on Philippine political culture. Like the West, the Philippines embraces the values of political and economic freedom; these similarities have helped the broadening of Philippine-Australia defence relations. The Australian embassy in Manila recognizes

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this factor when it stated that "The Philippines, as a democratic, predominantly Christian country with a long exposure to western culture and a relatively well-educated, English-speaking population, has much in common with Australia."[20]

Shared Regional Security Perspectives

The most enduring basis on which to broaden Philippine-Australia defence relations is their shared perspective on regional security.[21] The Philippines and Australia have common security interests in the peace and stability of Southeast Asia. Both countries regard their bilateral relations with the United States as an important factor for regional security. They have a convergence of interests in fighting terrorism in Southeast Asia, have common interests in the freedom of navigation in the South China Sea, share common security concerns in the maritime security of Southeast Asia and regard China as a great security challenge to peace and prosperity in Southeast Asia.

Relations with the United States

Both countries' defence and security policies are strongly based on their defence alliances with the United States. Their defence alliances with the United States are potential common denominators in the broadening of Philippine-Australia defence relations. Australia's Defence Update 2003 emphasizes that Canberra's defence relationship with Washington "remains a national asset."[22] Australia has, in fact, intensified its security alliance with the United States, especially in the aftermath of the October 2002 Bali terrorist bombings. The White Paper produced by the Department of Foreign Affairs and Trade (DFAT) has even stressed that "the depth of security, economic and political ties that we have with the United States makes this a vital relationship."[23]

The 1998 Philippine Defence Policy Paper, on the other hand, states that the Philippine-American defence alliance as mandated by the Mutual Defence Treaty (MDT) enhances not only Philippine national defence and security but also contributes to regional stability.[24] In fact, the Philippines has revitalized its defence alliance with the United States as a result of its unwavering support for the American-led global campaign against terrorism.[25]

As American allies in the Asia Pacific, the Philippines and Australia welcome the American presence in the region as a stabilizing factor. Both regard the continued commitment of the United States to regional stability as an important factor in the advancement not only of their national security interests but also for the maintenance of the prevailing balance of power in the Asia Pacific region. The Philippines and

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Australia also regard the return of the U.S. strategic presence in Southeast Asia after September 11 as one of the most significant developments in the security of the region.

Terrorism in Southeast Asia

The Philippines and Australia share the same perspectives on the threat of terrorism in Southeast Asia. Thus both countries strongly support the global "war on terrorism". Because of the convergence of their strategic perspectives on terrorism, they signed a Memorandum of Understanding to Combat International Terrorism during the visit to Australia by Philippine Foreign Secretary Blas Ople on 2–5 March 2003. The MOU on terrorism is an important milestone in the broadening of their defence relations, as it reaffirms the commitment of both countries "to strengthen and expand" their cooperation to fight international terrorism and articulates the determination of both countries "to prevent, suppress and eliminate international terrorism in all its forms."[26] In the MOU, the Philippines and Australia decided to intensify their cooperation in the following areas:

- Information and intelligence assessment;
- Law enforcement, including the prevention and investigation of terrorist activities;
- Money laundering and the financing of international terrorism;
- The development of appropriate and effective counter-terrorism legal, regulatory and administrative regimes;
- Smuggling and border control issues, including document and identity fraud;
- Illegal trafficking in weapons, ammunition, explosives and other destructive materials or substances; and
- Defense cooperation relating to international terrorist activities.

To implement their cooperation in these areas, both countries decided to undertake the following forms of cooperation:

- Exchange of information and intelligence;
- Joint training exercises and activities;
- Assistance in the prevention, investigation, and prosecution of acts of terrorism;
- Collaboration of projects of mutual interests;
- Capacity-building initiatives, including training and education programmes, convening of meetings, seminars, workshops and conferences;
- Sharing best practice and procedures to strengthen cooperation; and

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- Consultation regional and multilateral fora on issues relating to international terrorism and transnational organized crime.

The South China Sea Disputes

The Philippines and Australia also have a convergence of strategic perspectives on the territorial disputes in the South China Sea. Although Australia is not a claimant state, it has a stake in the issue because of its interest in the freedom of navigation in the area.[27] Australian commerce and trade with Asian countries depend on freedom of navigation in the South China Sea. Australia's "Asia Pacific Security Outlook" submitted to the ASEAN Regional Forum (ARF) states that although Australia "does not take a position on competing claims in the South China Sea, which are a matter for the parties concerned to resolve", Australia is wary of "heightened tensions and rivalry between claimants" because "shipping routes important to Australia" pass through the South China Sea.[28]

Apparently, the Philippines' stake in the South China Sea is much greater than Australia because of the issue of territorial sovereignty. However, like Australia, the Philippines is also cognizant of the implications of the South China Sea disputes for the freedom of navigation in the area. Because Australia is a mere interested observer in the South China Sea disputes, broadening Philippine-Australia defence relations will give Australia a louder voice in the Philippines to articulate Canberra's strategic interests in the South China Sea. The Philippines, on the other hand, can use its defence relations with Australia to leverage against China which is the most powerful claimant state in the South China Sea.

Maritime Security

The Philippines and Australia also share strategic perspectives on maritime security issues. Being an archipelagic state of more than 7,100 islands located between the South China Sea and the Pacific Ocean, the Philippines is a maritime state. Thus, maritime security is one of its foremost security concerns. Australia, on the other hand, is an island continent in a maritime region whose area of strategic interests is vast. Australia adjoins the Pacific Ocean in the east, the Indian Ocean in the west, the Southeast Asian archipelago in the north and — sometimes forgotten — the Southern Ocean.[29] Maritime security issues are therefore in Australia's national interest.

One major maritime security concern of the Philippines is the perplexing problem of maritime jurisdiction. The Philippines has maritime claims overlapping with the exclusive economic zones (EEZ) of neighbouring countries of Indonesia, Malaysia, Vietnam, China and

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Taiwan.[30] The passage of the 1992 Laws on Territorial Waters by the Beijing government declaring the whole South China Sea as part of Chinese territorial waters is also causing maritime security anxieties in the Philippines. The confirmed reports of the existence of terrorist networks in Southeast Asia have also increased the vulnerability of the region to maritime terrorism.[31]

Australia has also expressed anxieties over maritime issues in Southeast Asia because it regards Southeast Asia and its maritime security environment as part of its strategic space.[32] Broadening its defence relations with the Philippines can widen Australia's network of bilateral relations in Southeast Asia to advance its maritime security interests in the region.

The Rise of China

The rise of China is another factor in the broadening of Philippine-Australia defence relations. Although both countries have very good diplomatic and trade relations with China, they are wary of China's growing economic power because of its spillover effects on China's growing military power. From being one of the world's least developed countries in the 1970s, China has become one of the largest economies in the world.[33] The World Bank and the International Monetary Fund reported that from 1979 to 1997, China's gross domestic product (GDP) grew at an average rate of 9.8 per cent.[34] This phenomenal economic growth has enabled a significant expansion of the PRC's defence budget.[35] In view of the burgeoning economic and military power of China, the Philippines and Australia are affected by the spectre of a "China threat".[36]

The "China threat", however, is not officially articulated by the defence officials of the Philippines and Australia. The Philippines has publicly declared China as a regional opportunity, with concomitant challenges, rather than a threat.[37] The Australian official line, on the other hand, states that policy towards China "should be built not on apprehensions but on a positive desire to incorporate China as a valued participant in regional security affairs".[38] Nevertheless, both countries are apprehensive of the growing power of a presumably "aggressive China" even as they express confidence that China will remain a benign and responsible Asian power.

Broadening Philippine-Australia Defence Relations: Implications for Regional Security

Broadening Philippine-Australia defence relations would have some implications for regional security. Beijing will view the broadening of Philippine-Australia defence relations with suspicion because China

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does not want to see its neighbours "ganging-up" against Beijing, particularly on the issue of the South China Sea. Although the ARF can provide a forum for the Philippines and Australia to strengthen their leverage vis-à-vis China, there are still many challenges that need to be overcome in enabling the ARF to function effectively as a multilateral security mechanism capable of enforcing its decisions on detractors. The ARF is still very much at the incipient stage of confidence building and has yet to move concretely towards the second and third stages respectively of preventive diplomacy and conflict resolution. Major powers have even expressed impatience over the ARF process because China wants the ARF to move forward only at a pace most comfortable to all participants (which also means at a pace most comfortable to China).[39]

The United States will welcome the broadening of Philippine-Australia defence relations as a complement to their bilateral alliances with Washington. But Washington would not be too keen to see Philippine-Australia defence relations evolve as a substitute to Philippine-American defence relations. In the case of Japan, as a major Asian power aspiring to be a normal state, Tokyo is watching all developments in bilateral defence relations of countries in Asia. However, Japan would not stand in the way of Philippine-Australian defence relations getting closer as long as that development does not affect its aspiration of becoming a normal Asian power.

Broadening Philippine-Australia defence relations will also matter to India because of its "Look East Policy". There is a strategic perception in New Delhi that China's strategy is to encircle India. Thus, India wants to establish friendships with Australia and Southeast Asian countries to counter China in the region. India will welcome the broadening of Philippine-Australia defence relations because of their common security interests to check China's growing influence in Southeast Asia. In fact, India is also rebuilding its defence ties with Australia because of common security interests.[40]

Southeast Asian countries will welcome the broadening of Philippine-Australia defence relations for purposes of regional stability. In general, Southeast Asia views a strong web of complementary rather than competitive bilateral defence relations in the region as a positive factor for regional security. Because the Philippines and Australia tend to share common values, strategic space, and regional security perspectives, there is a need to intensify their defence relations to effectively address their common security interests. Intensifying defence relations should not be limited to education and training and CBMs. It is in their mutual interest to start discussing "hard" defence issues to lend credence to their burgeoning defence ties.

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In the short term, the Philippines and Australia will continue to strictly implement the provisions of their MOU on defence cooperation. In the September 11 context, the opportune moment could well have arrived to elevate this MOU into a full-blown bilateral agreement to enhance defence cooperation, especially in such areas as defence procurement, institutionalization of defence planning and acquisition systems.

There is a need to elevate the status of their MOU on counter-terrorism into a workable plan of action. The MOU does not have any provision for military cooperation, except for a token provision identifying the defence sector as one of the implementing agencies of the MOU. Although Australia sought to widen the scope of the document to include "joint military operations", the Philippine government did not accept the idea because of constitutional constraints. Thus, the final terms of the MOU referred only to joint training.[41]

In the medium term, both countries could explore the possibility of entering into a status of forces agreement (SOFA) similar, but not necessarily identical to the Philippine-American Visiting Forces Agreement (VFA). In comparison to the U.S., a Philippine-Australia SOFA would be less controversial because of the absence of colonial baggage. Through SOFA, the Philippine-Australian forces can work together well to address their mutual defence concerns. Their shared experiences in East Timor are good examples of how Australian and Filipino forces can work together to maintain regional peace and stability. In the long term, the Philippines and Australia could also consider exploring the possibility of entering into a mutual defence agreement. Their shared perspectives on regional security, cultural familiarity, and geographic proximity can foster a closer security relationship. This agreement can complement their existing mutual defence agreements with the United States to advance their mutual security interests.

Broadening the framework of Philippine-Australia relations has enormous potential to advance their common security interests. The Philippines and Australia do not have serious conflicts with one another. More importantly, both do not pose threats to each other. Since the establishment of diplomatic relations, their cooperation in various fields has been productive, longstanding and strong. Australia and the Philippines are even described by their respective foreign affairs departments as "partners in development."[42] The strengthening of their partnership is reinforced by close people-to-people contacts.

In view of the fact that their relations are already robust in functional areas, there is a strong need to strengthen these relations to defence and security areas. As stressed by Minister Alexander Downer,

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"the goodwill engendered through the continuing development partnership will remain an important part of our relationship."[43] This relationship must necessarily include the broadening of their defence relations which can contribute ultimately towards a stronger security architecture in Southeast Asia necessary for the promotion of regional peace and stability.

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Contemporary Southeast Asia 25, no. 3 (2003): 489–507 ISSN 0219-797X

The Jemaah Islamiyah (JI) Phenomenon in Singapore

BARRY DESKER

Recent publicity over the trials in Indonesia of Jemaah Islamiyah (JI) members has again brought the spotlight onto this elusive group and their operations around the region. This article begins by tracing the global and regional roots of the organization from conflict in the Middle East to the Iranian Revolution and the Soviet Afghan War. These events have contributed to the remarkable success of Osama bin Laden, his Al-Qaeda network and the call to Islamic jihad, all achieved by harnessing Muslim extremist forces to coincide with the zeitgeist of increasing religious orthodoxy and the politicization of the ummah. *Links are drawn between the Al-Qaeda and JI networks, as well as with other regional groups. The radicalization of Islam in Southeast Asia is depicted as not such a recent phenomenon, but an evolution of political, social, and educational practices across the region. Progressive and inclusive states like Singapore are not immune to the JI's insidious presence — they can only hope to reduce the ongoing terrorist threat through robust security measures and effective public policies which incorporate education and dialogue with Muslim leaders and the wider Islamic community.*

Introduction

The exposure of the Jemaah Islamiyah (JI) network in Singapore and the region, coming in the wake of the 11 September 2001 terrorist attacks in the United States and the 12 October 2002 Bali bombing, may have led some to think that Islamic radicalism in Southeast Asia is a sudden and

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recent phenomenon. In reality, it has been in the making for more than 20 years; its roots originate in events in the Middle East, the effects of which have reverberated worldwide. This in turn was facilitated by the impact of globalization and technological advancement. However, the catalytic role played by Al-Qaeda, especially since the early 1990s, is perhaps the single most significant factor in the globalized terrorist threat confronting the world today.

The potency of Al-Qaeda rests in its ability to channel the Islamic forces it inspires. More than any other leader before him, Osama bin Laden has been able to unify radical Islam and to focus its rage. However, Osama's success must be seen in the context of two parallel historical developments — namely, the polarization of Islamic extremist forces coinciding with a broader current of increasing religious orthodoxy and the politicization of the *ummah* (Islamic community) throughout the world. These phenomena have been going on for more than the last 20 years.

The current wave of Islamic revivalism and the increase in Islamic fundamentalism in the Middle East can be traced back to the 1970s.[1] The repeated failure of Western modernization to deliver the promised social and economic improvement in Muslim-dominant countries and the continuance of regimes perceived as corrupt and oppressive, alienated the Muslim populace, especially the young. The rejection of Western notions of nationalism or socialism led to a return to traditional, conservative, Islam and a revival of political activism based on the ideas of Islamist thinkers like Hassan al-Banna and Sayyid Qutb.[2] While al-Banna advocated a gradual evolution towards more pristine forms of Islam, to be brought about by education and grassroots involvement, Qutb insisted upon an immediate struggle against the ruling regimes, which he condemned as "un-Islamic."[3] Qutb's ideas polarized Muslim communities and paved the way for the radicalization of Islamist movements worldwide. Islamic activists dissatisfied with the slow progress of political reforms called for the adoption of *jihad,* or holy war, as the only viable method for revolutionary social and political change.

Middle East Conflict

The perennial tensions in the Middle East centred round the Israeli-Palestinian issue, since the establishment of Israel in 1948, have also contributed to the global Islamic revivalism and the surge in Islamist activism. These tensions have given birth to numerous militant and terrorist groups, such as the Hezbollah, HAMAS and Palestinian Islamic Jihad, whose common enemy is Israel. Second, the U.S. policy to

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support Israel has played a major role in polarizing the Muslim world away from the U.S.-Israeli axis. Anti-American sentiment has been festering over the years initially among the Arab community, but these have spread across the Islamic world. In Southeast Asia, for example, politically active Muslims have kept abreast of the conflict in the Middle East through reports in the mass media and the Internet. Several of the Singapore JI detainees have said that they felt a keen affinity with their fellow-Muslims in Palestine, having followed Middle Eastern developments by television and the World Wide Web.

Consequently, the widespread awareness of the ongoing conflict in the Middle East has generated greater polarization among Southeast Asian Muslims. Some have chosen more radical paths by directly joining in the activities of the militant and terrorist groups. In Singapore, for example, a few Singaporeans consciously associated with Hezbollah elements in the early 1990s and even took the *bai'ah* (oath of allegiance) to the organization, but stopped just shy of involvement in military operations.[4] Others who have opted for more pacific measures have used the Internet to launch protest campaigns against Israel and the U.S., or to send messages exhorting the boycott of American products. In fact, the official websites of some of these terrorist groups have launched special editions in Bahasa Indonesia and Malay so as to build bridges of support and political affinity between Middle-Eastern and Southeast Asian Muslims.[5]

The Iranian Revolution (1979)

A signal event was the Iranian Revolution of 1979. In Iran, the dictatorial regime of the Shah was equated with its backer, the United States, which was viewed as "the Great Satan" for its exploitation of the country's natural resources and corruption of the local culture.[6] The erosion of Islamic values, combined with the moral and financial lassitude of the ruling élite, fomented a groundswell of anger against the Shah. The unexpected success of Khomeini's revolution stirred a sense of Islamic empowerment across Muslim communities all over the world, including in Southeast Asia. In Singapore, inspired by the revolution, at least one Sunni organization converted to Shi'ism after its leader returned from Iran.[7] The organization sent its students to study in Shi'a *madrasahs* (schools) in Pakistan and Iran and several of its members became involved with Hizbollah elements in the early 1990s.

There was, however, a significant constraint in the ability of Iran to export its brand of Shi'a Islam to Southeast Asia since most Muslims in the region belong to the Sunni variant of the faith. Nevertheless the successful establishment of a purist Islamic theocracy in Iran inspired

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a new sense of confidence in the power of Islamic identity and the strength of Islam to mobilize the masses. In addition, Khomeini's triumph fostered a wave of Islamic activity in the Sunni world as well, especially since it galvanized Saudi Arabia to aggressively promote Wahabi beliefs in competition with Iran.[8] Under the dual influence of Khomeini's example and Saudi Arabia's rich sponsorship,[9] Muslims in Southeast Asia developed a growing sense of identification with the larger community of believers and increasing acknowledgement of the new ideological developments in the Middle East.

Soviet-Afghan War (1979–89)

Another watershed event was the 10-year Soviet-Afghan war that pitted a superior Soviet military establishment against the poorly equipped and funded mujahidin fighters from Afghanistan and other parts of the world, including Southeast Asia. The Soviets committed some 100,000 troops to the war effort, used superior weapons and enjoyed total air superiority, yet victory eluded them.[10] As the war progressed, the mujahidin improved their organization and tactics and also acquired better weapons either captured from the Soviets or funded by Saudi Arabia and the U.S.[11] Idealistic Muslims from all parts of the world — including Southeast Asia — fought side by side in Afghanistan to aid the jihad against the Soviet "infidels". The eventual Soviet retreat in 1989, followed by the subsequent collapse of the communist-backed Najibullah government in 1992, heralded a great victory not only for the mujahidin, but also for the Muslim *ummah* worldwide.[12] The feat of Afghanistan inspired a renewed confidence among Muslims in their own forces and elevated jihad or holy war as the only effective instrument for dealing with political adversity. Bound together by shared war experiences, the mujahidin forged an international brotherhood of Afghan alumni, and returned to their respective countries filled with the fervour to replicate the militant jihad at home. An example of this is the Kumpulan Militan Malaysia (KMM),[13] a grouping of Afghan veterans who sought to establish an Islamic state in Malaysia by force.[14]

Osama bin Laden and Al-Qaeda

An important spin-off of the Soviet-Afghan war was the creation of a military base in Afghanistan run by Osama bin Laden and Al-Qaeda. With an intricate complex of training camps, this base provided training in weapons, explosives and urban warfare to potential "jihadis" from all over the world. Having received training, these militants would depart taking their new skills with them, to either participate in other theatres of jihad or to train aspiring "jihadis" at home.

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The 1990 Gulf War was another important point in the history of Islamic radicalism. The defeat of Iraq by the U.S.-led coalition was less significant than the consequent permanent stationing of U.S. troops in Saudi Arabia. In 1996, Osama bin Laden publicly proclaimed that "to push the enemy — the greatest Kufr [infidel] — out of the Land of the Two Holy Mosques is a prime duty."[15] Through this statement, Osama succeeded in sustaining the momentum of the Islamic jihad past the Soviet-Afghan war and into new political terrain and global issues. Initially focusing on a regional political mission to oust U.S. forces from Saudi Arabia, with time, bin Laden succeeded in transforming his opposition into a globalized jihad against America and its allies. In 1998, Osama issued a second call to holy war, this time on behalf of the World Islamic Front fighting the Jewish and Crusader Alliance.[16]

Typically, Al-Qaeda rhetoric has always depicted the U.S. as the main western power, propping up Israel and perpetuating the oppression of Muslims in the Middle East and in other parts of the world. In this new pronouncement, however, Osama bin Laden portrayed the West as entwined in an irreconcilable clash of civilizations with Islam. The Muslim faith, in his view, under siege by the forces of Western imperialism led by the U.S.; these forces threaten the very existence of Islam and the Muslim *ummah*.[17] As examples, Bin Laden cites U.S. interventions and foreign policy accountable for the loss of millions of Muslim lives in Afghanistan, Iraq, Somalia, Palestine, Sudan, the Philippines, Bosnia, Kashmir, Chechnya and so on.[18] Most recently, Suleiman Abu Gheith, Al-Qaeda's spokesman, echoed Bin Laden's claims by saying "We have not reached parity with them [the U.S.]. We have the right to kill four million Americans — two million of them children — and to exile twice as many and wound and cripple hundreds of thousands."[19] This rhetoric of revenge and hate focusing on the U.S. and its allies has unfortunately found resonance with many members of the *ummah*. The growing rage brewing over what Muslims see as the humiliation and subjugation of fellow-Muslims and Islam by a global conspiracy of Western powers had finally found its focus and leadership in Al-Qaeda. Bin Laden's declarations promoted widespread fanaticism and violence in various militant segments of the *ummah* throughout the world.

The key contribution of Osama is his success at franchising the cause of Islamic jihad in stark and simplistic terms. As a successful organizer, he has succeeded in yoking together a broad range of local groups, each with its own distinct history of struggle and particularized agenda. The common mandate offered by Bin Laden — a universal crusade of jihad against the enemies of Islam — allows these groups to continue their domestic struggles, but reflected through the prism of a global cause and a global purpose, namely, the defence of Islam. In

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Southeast Asia, key groups that came under the influence of Al-Qaeda, included the Moro Islamic Liberation Front (MILF), the Abu Sayyaf Group (ASG), the KMM, and Jemaah Islamiyah (JI). The interconnections between the groups have enabled the MILF to provide training facilities and bomb-making expertise for JI activists from around Southeast Asia. This "brotherhood" network has enabled the Indonesian Islamic Liberation Front (IILF) to raise funds for the MILF in the Philippines through smuggling and illegal logging.[20] Al-Qaeda's capacity to absorb and co-opt these local movements even if in different degrees in each case — has led to the strategic escalation of their military campaigns. New sympathizers and supporters, previously unaffected by the group's recruitment techniques, have joined under the banner of Osama bin Laden's call. The resulting pan-Southeast Asia crusade is a manifestation of the fundamental potency of Al-Qaeda's ideology and its ability to polarize and radicalize Muslim communities worldwide.

Al-Qaeda sees itself as the vanguard of Islamic forces all over the world; it considers its own role as that of a revolutionary catalyst.[21] While it directly oversees an umbrella organization with operatives spread across the world, its strength lies not in the internal structure and dynamics of its command hierarchy, but in the extended networks these have spawned with indigenous Islamic militant groups. Providing funding and training to these fraternal entities are staple elements in Al-Qaeda operational priorities. Acts of symbolic terrorism like the September 11 incidents, on the other hand, are few and far between and are meticulously planned for maximum impact to inspire and show the way to other militants.

While the regional Islamist organizations may strive after political power, Al-Qaeda's agenda does not necessarily entail a coordinated and coherent plan to capture and maintain political control. Instead, Al-Qaeda's immediate and consuming goal is to liberate the *ummah* by inspiring it to revolution.[22] Bin Laden's belief is that revolutionary struggle is a necessary and critical process in unleashing the spontaneous forces of the *ummah* for global battle in defence of Islam. Hence, in mapping the extent of Al-Qaeda's reach, one finds not a single, transnational organization but a hydra-headed creature that spans the world, operates globally, but recruits locally. In channelling the domestic forces of radical Islam to its universal campaign of holy war and destruction, Al-Qaeda has emerged as the first truly global terrorist network.

The Al-Qaeda connection — either through participation in the Afghanistan war or through training in Al-Qaeda camps — invariably transformed the leaders of the local groups. They returned equipped with varying degrees of knowledge in the craft of terrorism (such as

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security measures, organization, secure communications, operational planning, bomb-making, etc.) but almost always with an ideological zeal and a sense of empowerment that effectively polarized their own organizations. This led to increased levels of terrorist violence and sophistication. The MILF and ASG are prime examples. In some cases, Al-Qaeda's influence may have even altered the historical political agenda of the groups. For instance, the JI originally subscribed to distinctly Indonesian political goals — the vision of an Islamic state in Indonesia — as it was an intrinsically nationalist Islamist organization.[23] In a 1997 interview, JI founder, the late Abdullah Sungkar, referred to the Darul Islam/Islamic State of Indonesia (DI/NII) organization as the embryo for JI and the organization's necessary plan of "non-co-operation" with the Indonesian government.[24] When its leaders and other elements returned from the Afghan conflict, having undergone training with Al-Qaeda, as well as exile in Malaysia from 1985 to 1998, this vision grew to encompass a broader notion of an Islamic state throughout the region, namely Daulah Islamiyah Nusantara, consisting of Malaysia, Indonesia, southern Thailand and the southern Philippines (at the centre of the archipelago, Singapore was also to be incorporated in the state although Muslims are a minority in Singapore). JI leader Abdullah Sungkar even advocated the idea of a world Islamic state or *khilafah*.[25]

Radicalization of Muslims in Southeast Asia

Within Southeast Asia, conditions in the last two decades have been especially conducive to the spread of radical Islamist ideologies imported from the Middle East. The psychological impact of the Iranian Revolution and the subsequent revolutionary experience of many Southeast Asian Muslims, who either volunteered in the Afghan jihad against the Soviet army or studied in Saudi and Pakistani *madrasahs* imbibing the local culture of political violence and change, polarized the Islamic milieu in the region.

The transfer of the Afghan combat experience and Al-Qaeda's ideology to local militant organizations raised the level of sophistication and the capacity for violence of these groups. Furthermore, it facilitated the emergence of two longer-term trends, namely the re-orientation of local military training facilities to suit Al-Qaeda's purposes (camps in Mindanao and Indonesia as an alternative to Afghanistan),[26] and the conversion of the curriculum of *madrasahs* and *pondok* religious schools[27] in the region to teach militant Islam. By providing a radical reading of the Qu'ran and cloaking political issues in extremist terminology, such *pondoks* and *madrasahs* made students receptive to the teachings of Salafi and Wahabi scholars, who had provided religious

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backing to Al-Qaeda.[28] Such teachings have been increasingly spreading within the Sunni majority in Southeast Asia in the last decade or more, serving to reinforce the radical bent already found in existing groups like the JI. In southern Thailand, for example, there has been a growing radicalization of practices and expressions of the faith.[29] Politically, there are signs that the Muslim community there is also increasingly subscribing to a world-view where a radical Islamic reading of political issues portrays the west as oppressors and the global *ummah* as under threat. Additionally, the religious teachers in the *pondoks* of Thailand reject the mainstream Thai cultural identity and stress a global Islamic identity instead.[30] Most recently, the Cambodian authorities have noted the increasing influence of Wahhabi doctrines among their Cham minority, resulting from Middle Eastern financial support and the use of Arab and Pakistani teachers in their *madrasahs*.

While the governments of Malaysia and Indonesia back the governments of the Philippines and Thailand in their fight with Islamic separatist movements, popular support for the insurgents exists at the ground level. Over the past two decades, Malaysian government policies have aimed at winning Malay Muslim political support in the face of sustained competition from PAS (Pan-Malaysian Islamic Party) which advocated an Islamic state. This competition led to efforts to out-Islamize PAS with the creation of a Muslim religious bureaucracy and the codification of laws that provided the basis of an Islamic state. In Malaysia, this "Islamization race" has resulted in Islamic discourse being dominated by conservative *ulamas* and advocates of Wahhabi austerity. A significant reason for the Malaysian government hosting the international Islamic conference in Kuala Lumpur in July 2002 was the desire that moderate Muslims reclaim centre stage. Likewise, Indonesia is also witnessing a struggle between moderate Islamic scholars (who describe their movement as Liberal Islam) and the Wahhabis (representing what the moderates describe as Literal Islam) who advocate the establishment of an Islamic state, implementation of *sharia* law and the imposition of state-sponsored codes of dress and public behaviour. For most of President Soeharto's tenure, political Islam was seen as the opposition to the state. The Indonesian government strongly supported the religious needs of the Muslim community, but efforts to transform Indonesia into an Islamic state were opposed vigorously by President Soeharto and the Indonesian armed forces. The past two decades have witnessed an increasing *santri-ization* of Indonesian society. (The *santri* community is seen as devoutly Muslim compared to the majority *abangan* nominal Muslims. In reality, the divisions are not so stark and there is a continuum that reflects the diverse practice of religious faith.) Post-Soeharto Indonesia has witnessed a rise in Islamic political activism

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and Islamic religious parties have played a significant role in Indonesian presidential elections since 1998.

It should be noted that indigenous groups with their own agenda of setting up an Islamic state in existing Southeast Asian states (such as Darul Islam in Indonesia) or a separatist Islamic state (such as MILF in the Philippines) preceded the emergence of Al-Qaeda. However, participation in the Soviet-Afghan war and the return of such mujahidin to their respective groups, the exposure to Al-Qaeda ideology and terrorist training and the development of cooperation among radical Islamists in the region effectively raised the level of militancy and their expertise and capacity for terrorist violence as well as established a collaborative network of leaders of such groups in the region and beyond. To this end, in 1999 the JI regional leadership formed a secret caucus called the Rabitatul Mujahidin (Mujahidin Coalition), which brought together key leaders of the numerous militant Islamic groups in the region.[31] Familial connections could also have played an important role in building links between indigenous groups and Al-Qaeda. For instance, Omar al-Faruq, an Al-Qaeda senior operative in Southeast Asia, who was captured in Indonesia in June 2002, is married to the daughter of Haris Fadillah, the leader of Laskar Mujahidin.[32] A further example is Osama bin Laden's brother-in-law Mohammad Jamal Khalifa, who, by marrying a Filipina, Jameela (Alice) Yabo in Mindanao, reportedly was able to penetrate the local Muslim community.[33]

There are clear operational links between Al-Qaeda and the JI. The Singapore investigation showed that when the JI planned the bombing of American targets in Singapore, the initiative came from Al-Qaeda.[34] According to the Singapore White Paper, an Al-Qaeda operative made contact with a regional *syurah* (council) member in Kuala Lumpur, Malaysia, Faiz Abu Bakar Bafana.[35] The latter put him in touch with a Singapore JI cell. Although they had never met before, the cell members were ready to carry out all necessary preparations for the attack, including video reconnaissance, target surveillance and the procurement of explosive material. What the Singaporeans could not do, others from the "talent" pool in JI's regional network provided. A diagram illustrating the multiple connections between JI and other terrorist organizations in Southeast Asia and its external links to Al-Qaeda can be found in the appendices (see Figure 1).

The specifics of the JI network structure have been documented in the handbook *General Guidelines for the Jemaah Islamiyah Struggle* (*PUPJI*), drawn up by Sungkar and other Afghan veterans.[36] At the head of the network sits the *amir* who resides over four councils (governing, religious, *fatwa* and disciplinary). The governing council (*majelis qiyadah*) is headed by the central command (*qiyadah markaziyah*),

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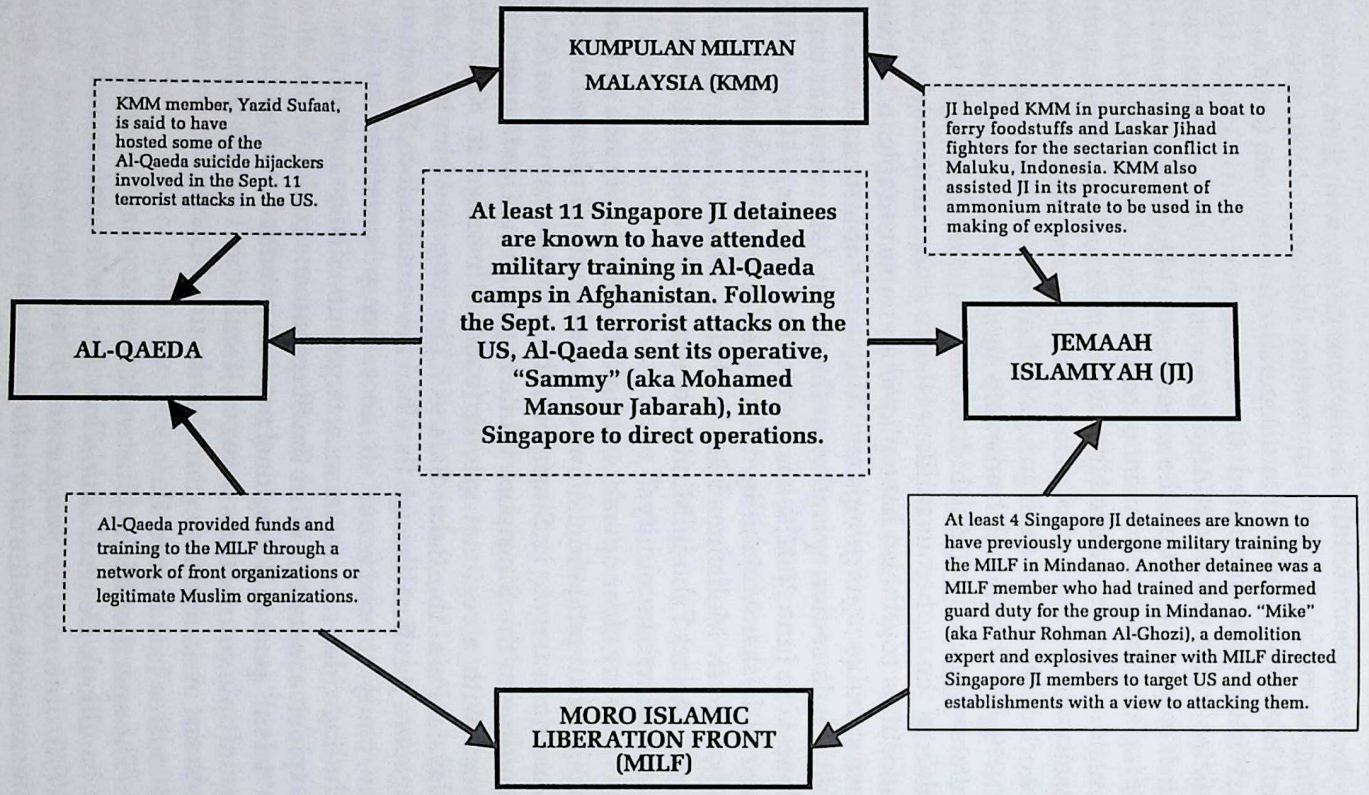
FIGURE 1
Chart of Singapore JI's External Links



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which in turn exerts authority over the leaders of the four *mantiqis* or territories. Mantiqi 1, encompassing Singapore, Malaysia and Southern Thailand,[37] is regarded as providing the economic wherewithal for operations.[38] The *mantiqis* are then made up of several branches or districts (*wakalahs*) — the Singapore *wakalah* is under the Johor *wakalah*. Within each w*akalah* can be found a consultative council that administers to the various subsidiary units (missionary, economic, operations, security, and communications). The ultimate division is into operations cells (*fiah*) that comprise four or five individuals. An illustration of the JI's organizational structure, with specific reference to the organization in Singapore, can be found in the appendices (see Figure 2).

Rather than describe the network in geographical terms, Sidney Jones of ICG prefers to conceptualize the organization as "a military structure, befitting a guerrilla army."[39] The *mantiqis* and *wakalahs* can be compared to brigades and battalions, and so on all the way down to the *fiah* squads. This analogy better explains the incorporation of the special operations unit, Laskar Khos, which has been associated with the August 2003 Marriott bombing in Jakarta. Perhaps the most edifying aspect of JI's adaptability is, according to chapter 14 of *PUPJI*, its ability to work with any other Jemaah Islamiyah (literally "Islamic Community") provided they share the same goals and principles.[40] This explains the JI's connections with Al-Qaeda, the MILF and Abu Sayyaf, and more telling, points to the potential regenerative capacity of the organization.

Demonstrating the tentacular nature of the JI network, the Singapore bomb rigging was to be done by an Indonesian, Fathur Rohman Al-Ghozi, who was convicted in 2002 in Manila for possessing 1.2 tonnes of TNT, 2,400 metres of detonator cord and hundreds of detonator caps intended as part of the material for the bombing mission in Singapore.[41] Fathur Rohman was a student at the school set up by the JI spiritual leader, Abu Bakar Ba'asyir, in central Java, where he was recruited as a member of JI. Although Fathur Rohman became a trainer and bomb-maker with the Philippine MILF, he remained a JI member and after marrying a Malaysian, settled in Johor.[42] After escaping from a Manila prison in July 2003, Fathur Rahman was reportedly killed by Philippine troops on 12 October 2003 in the southern island of Mindanao.[43]

Further connections between Al-Qaeda and JI are evident from the role played by another JI member, Yazid Sufaat, in coordinating the September 11 attacks. In Malaysia, Sufaat housed Khalid Al-Midhar and Nawaq Alhamzi, two of the Al-Qaeda terrorists who eventually crashed a plane into the Pentagon on September 11.[44] Additionally, he provided the cover for another hijacker, Zacarias Moussaoui, to obtain

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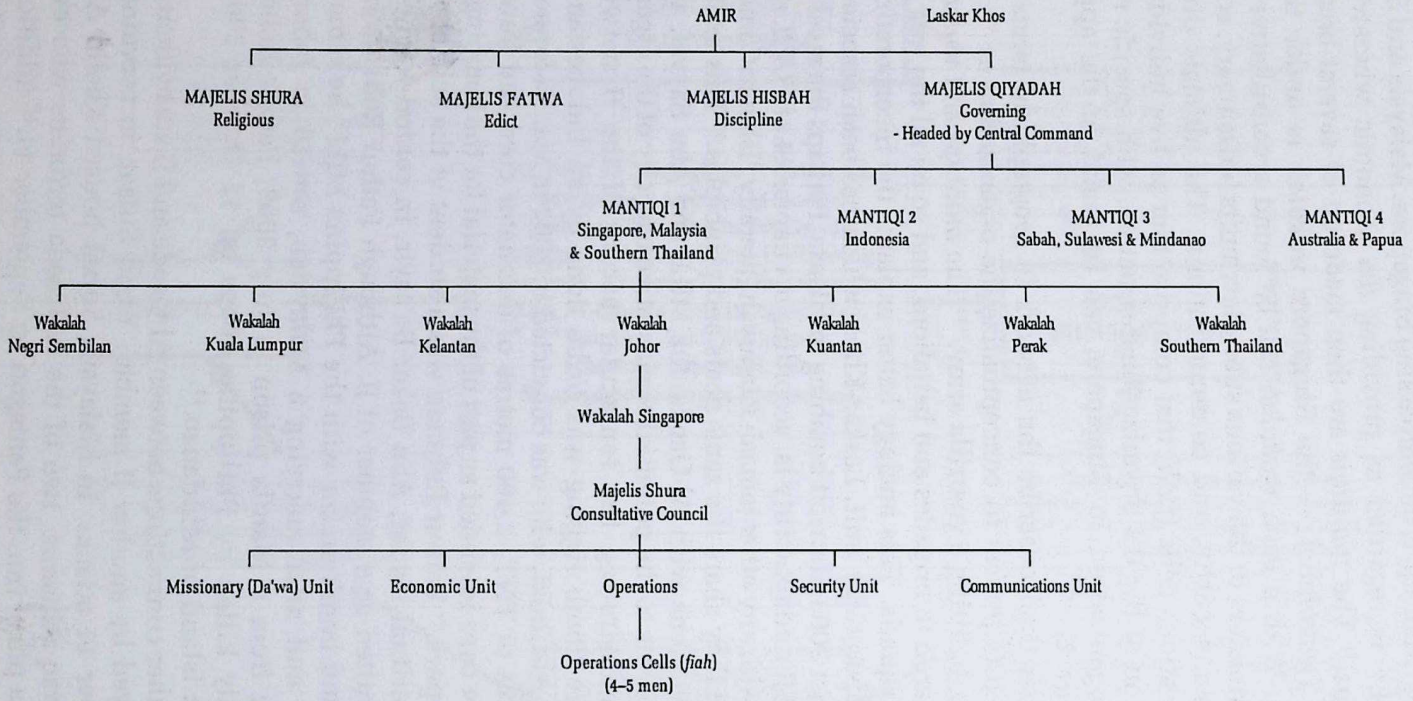
FIGURE 2
Organizational Structure of Jemaah Islamiyah (with specific reference to Singapore)



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a visa to get into the United States.[45] Although Moussaoui was detained before the incident by the FBI because of suspicious behaviour at a flight school in Arizona, his original plan was probably to crash a plane into the White House.According to Faiz, Moussaoui, who was received by him and other JI members in Kuala Lumpur, had told him of his "dream" to crash a plane into the White House and that this was endorsed by Osama bin Laden himself.[46]

The Singaporeans in the Jemaah Islamiyah (JI)

The disclosure of the existence of the JI in Singapore, particularly the deep involvement of some local Muslims in foreign-led terrorist plots which, if successful, would have brought untold harm and suffering to fellow Singaporeans — was incomprehensible to many in the country. The Singapore JI members had been recruited and were entangled in the jihadist cause in much the same way as other Southeast Asian Muslims from Indonesia and Malaysia.

Like other "jihadis" in the region, the Singapore cell members had either participated in the Soviet-Afghan War or had received training in Al-Qaeda camps in Afghanistan. The Middle East conflict had galvanized their political sensibilities and made them attuned to the propaganda of Al-Qaeda's franchised message. At least 11 Singapore JI members were sent to Afghanistan since the early 1990s to participate in the jihad or to train in Al-Qaeda camps (arrangements made by the JI leader, the late Abdullah Sungkar).[47] Several of these Muslims returned more radicalized and with a zeal to conduct military training at home so that other members would be "jihad-ready".[48] One of them, Jauhari bin Abdullah (detained by the Singapore authorities), was so inspired by his stint in Afghanistan that he designed his own jihad plan some time after his return.[49]

Swept by the wave of Islamic revivalism in the region, many of the JI members had begun their journey into terrorism by innocently looking for religious instruction in order to become better Muslims. They came into contact with charismatic religious preachers such as Abdullah Sungkar, Abu Bakar Ba'asyir, Abu Jibril and Hambali.[50] Under their guidance, they learned to hate the West for the injustices done to Muslims in the Middle East and elsewhere, and were convinced that violent jihad against these enemies of Islam would expiate all sins and be a sure ticket to paradise. Hence, when members of the JI cell "fiah Musa" were asked in October 2001 to target several Western establishments and the Israeli embassy, they obeyed the instructions issued by the Al-Qaeda operative without question.[51] Their motiv s were essentially theological, not psychological; they

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were not marginalized elements in society who were ill-educated, impoverished, destitute or disenfranchised.[52] They were people looking for spiritual answers and they believed they had found purpose through belonging to a radical cause, even one which was to be realized through terrorist violence.

The underlying motives of the Singapore JI members may be discerned in the familial and fraternal ties among many of them, that bonded them to the cause that their cell leader inspired them to take up. This spiritual leader, or *wakalah*, Ibrahim Maidin, inspired respect among his followers by first giving them religious instruction and teaching them the meaning of the Qu'ran. For those seeking spiritual fulfilment in their otherwise mundane materialist lives, Ibrahim showed how they could attain it by taking up the cause of Islamic jihad both in terms of improving themselves and helping the larger cause of Muslims fighting for freedom or justice around the world. His personal conversion to the cause through his frequent journeys to Afghanistan and his training with Al-Qaeda gave him immense credibility and status among his followers. Their oath of allegiance (*bai'ah*) to him as spiritual leader became a rite of admission.

Some of the Singapore JI members were blood relatives and had familial ties with JI members in Malaysia and Indonesia. For instance, the operational leader of Mantiqi 1, Mukhlas, is a brother of the Bali bombers Ali Imron and Amrozi and brother-in-law to Hashim Abas (a detained Singapore JI member who is the voice on the videotape of a JI surveillance operation on the shuttle bus carrying U.S. Navy personnel at Yishun MRT train station, which was sent to Mohd. Atef, Al-Qaeda's military commander, and found in the rubble of Mohd. Atef's home in Kabul.) Hashim Abas is in turn a brother of Nasir Abas, the former leader of JI Mantiqi 3 which covers Sabah, Mindanao and Sulawesi. Another Singapore JI detainee, Fathi Bafana is the brother of Faiz Bafana, the treasurer of JI Mantiqi 1. The JI Singapore *wakalah* leader Mas Selamat Kasteri is brother-in-law of another JI detainee Syed Ismail, while two brothers Naharudin and Simon Sabtu are also among the detainees. The previous JI Singapore *wakalah* leader, Ibrahim Maidin, is the father-in-law of Salim Marwan, a detained JI member. This network of familial ties provided the JI members mutual support and enabled them to live and operate as a closed community, with a self-reinforcing conviction of the rightness of their clandestine cause.

Singapore JI members demonstrated blind loyalty to the JI cause which was often mistaken by them as commitment to their religious faith. This led them actively to participate in plans to mount terrorist actions within Singapore, the consequence of which would have been

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damage to Singapore and death of their fellow citizens. In October 2001, they agreed to help the Al-Qaeda mount truck bomb operations against the U.S., British, Australian and Israeli embassies, the Singapore Ministry of Defence and western commercial targets in Singapore. They also surveyed potential targets in Singapore including Ministry buildings, water pipelines, Changi Naval Base, Changi International Airport and several MRT (underground) stations. They were doing this not in pursuit of JI goals but because they had offered themselves as willing operatives for Al-Qaeda.

Conclusion

The challenge of the JI phenomenon is an ideological one. Like other governments in the region, the Singapore government can take security and law enforcement measures to contain the perceived threat. However, if the challenge posed by the ideological radicalism underlying the belief-systems of these individuals is not met with an effective response, there will be no guarantee of preventing the possibility of another generation of JI recruits. How such antisocial behaviour can be inculcated among citizens of a modern and progressive state like Singapore is deeply disturbing and raises difficult questions about the strength of Singapore's social fabric.[53] Psychologists working with Singapore JI members concluded "they wanted to be convinced that in JI they had found 'true Islam' and [thereby] free themselves from endless searching ..." The sense of escapism offered by JI is further reflected in the typical profile of the JI members and their "high compliance, low assertiveness, low [...] questioning of religious values and high levels of guilt and loneliness."[54]

JI's singular conception of jihad as a violent struggle and an obligation for all good Muslims to pursue; their rejection of the secular state and their personal allegiance to Al-Qaeda; their belief that terrorist violence is a legitimate means in pursuit of the larger cause of defending Muslims and Islam are some of the key issues which need to be addressed by the Singapore government and Singapore Muslim leaders as well as other governments in the region. Failure to do so will simply guarantee Singapore and other progressive nations their continuing status as legitimate terrorist targets. Only through a combination of effective public policy, education, and dialogue can the spread of Al-Qaeda's radical ideology be neutralized. In this regard, the active participation of Muslim leaders and communities in re-appropriating and re-defining their religious faith as one of peace, cooperation and tolerance is crucial.

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NOTES

1. Emmanuel Sivan, *Radical Islam: Medieval Theology and Modern Politics* (Yale University Press, 1985), p. 130.
2. Hassan al-Banna was an Egyptian Islamist leader who founded the Muslim Brotherhood or Ikhwan al-Muslimin in Egypt in 1928. Under his leadership, the organization aimed to bring about social and political reform by grassroots movements and peaceful social pressure. However, following al-Banna's death and the stand-off between the Brotherhood and Gamal Abdul Nasser's Arab Socialist regime, the movement took a violent turn, becoming polarized under the influence of its new radical ideologue, Sayyid Qutb. Guided by Qutb's writings, young members of the Brotherhood adopted terrorism as the only method for rapid social and political change. In 1981, they assassinated Egyptian President Anwar Sadat in reaction to the 1979 Peace Agreement between Egypt and Israel. As a result, the Muslim Brotherhood split gave rise to two of the most violent Islamist terrorist groups, the Gamaat al-Islamiyya, or Islamic Group, and the Egyptian Islamic Jihad. Both groups form part of the close entourage of Bin Laden and belong to Al-Qaeda, having signed the 1998 "Declaration of Jihad against the Jewish and Crusader Alliance".
3. Sayyid Qutb, *Signposts on the Road*, 1964, p. 116–17.
4. Agence France Press, "Hezbollah Had Plans to Attack U.S., Israeli Ships in Singapore: Report," 9 June 2002.
5. See, for instance, the locally hosted HAMAS website: <http://www.infopalestina.com/Hamas/HAMAS/>.
6. Gilles Kepel, *Jihad: The Trail of Political Islam* (Cambridge, Mass.: Harvard University Press, 2002), p. 110.
7. The name of the group was Himpunan Belia Islam (HBI), part of the Malay Youth Movement in Singapore. See, *Straits Times*, "Shi'ites Considered Part of Muslim Community in Singapore," 12 May 1996.
8. Kepel, op. cit., pp. 61–81.
9. This has been exemplified by Saudi quasi-government and private organizations, such as the Jeddah-based World Muslim League, which have given financial support and grants to groups which advocate more fundamentalist approaches to Islamic doctrines and those most active in seeking the creation of Islamic states.
10. Ahmed Rashid, *The Taliban: Militant Islam, Oil, and Fundamentalism in Central Asia* (New Haven: Yale University Press, 2001), pp. 84–5.
11. Ibid., p. 85.
12. Ibid., p. 96.
13. The Star Online, Wong Chun Wai "Idealistic Young Men Fired by the Call to Jihad," 10 August 2001, <http://thestar.com.my/news/list.asp?file=/2001/8/10/nation/1015wcko>.
14. The KMM have been accused, amongst other things, of the murder of Malaysian politician Joe Fernandez in November 2000. (For further links between the KMM and JI see Singapore Ministry of Home Affairs *White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism*, 9 January 2003, available at <http://www.mha.gov.sg>).
15. The following text is a *fatwa*, or declaration of war, by Osama bin Laden first published in *Al Quds Al Arabi*, a London-based newspaper, in August, 1996. The *fatwa* is entitled "Declaration of War against the Americans Occupying the Land of the Two Holy Places." <http://www.pbs.org/newshour/terrorism/international/fatwa1996.html>, accessed 26 Nov 2003.
16. World Islamic Front for Jihad Against Jews and Crusaders: Initial "Fatwa" Statement, <http://www.library.cornell.edu/colldev/mideast/fatw2.htm> (Arabic); <http://

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www.fas.org/irp/world/para/docs/980223-fatwa.htm> (English), accessed 23 Feb 1998.

17. Ibid.
18. Ibid.
19. WorldNetDaily.com, "Muslims Have 'Right to Kill 4 Million' ", 12 June 2002, <http://www.worldnetdaily.com/news/article.asp?ARTICLE_ID=27938>.
20. Singapore Ministry of Home Affairs *White Paper: The Jemaah Islamiyah Arrests*, 9 January 2003, available at <http://www.mha.gov.sg>, p. 4.
21. The founding document of Al-Qaeda, authored by Osama bin Laden's spiritual mentor Abdullah Azzam, proclaims, "This movement will represent the spark that ignites the potential of the nation. It will carry out a long jihad in which the Islamic movement will provide the leadership and the spiritual guidance". See, Rohan Gunaratna, *Inside Al-Qaeda* (London: Scribe Publications, 2002), p. 4.
22. Ibid.
23. International Crisis Group, "Al-Qaeda in Southeast Asia: the Case of the Ngruki Network in Indonesia", 8 August 2002, pp. 1–5.
24. Blontank Poer, "Tracking the Roots of Jamaah Islamiyah", *Jakarta Post*, 8 March 2003.
25. Ibid.
26. Once the Soviet-Afghan war was over and Saudi donor aid for the mujahidin was slashed, training shifted elsewhere, as did Abdullah Sungkar's jihad programme, to low-cost Mindanao, the Philippines, where Muslim Moro rebels were fighting for independence.
27. *Pondok* is the term used commonly in Southeast Asia to refer to an Islamic boarding school. In Java, they are usually known as *pesantren.*
28. The Salafi and Wahabi teachings are fundamentalist in nature. The Salafi tradition draws on the Quran and sunnah (traditions of Prophet Muhammad) as the only sources of religious rulings. It considers the first three generations of Muslims starting from the time of the Prophet as reflecting the most pure understanding and practice of Islam, and calls for a return to that time. The Wahabi tradition similarly calls for the return to the pristine Islam of the Quran and sunnah. Extremists have used Salafism and Wahabism to justify their militant position against non-Muslims and those whom they consider as "infidels" (including Muslim governments that have not imposed *syariah* law in their countries).
29. Islamonline.net, "Violence Hits South Thailand, Muslim Separatists Allegedly Blamed", 11 July 2002, <http://www.islamonline.net/English/News/2002-07/11/article25.shtml>.
30. The Muslim separatist groups calling for an independent Islamic Pattani state include the New Pattani United Liberation Organisation, the Barisan Revolusi Nasional and the Gerakan Mujahidin Islam Pattani.
31. According to the Singapore White Paper, among those groups represented at Rabitatul Mujahidin meetings were the MILF, JI, various extremist groups active in Aceh and Sulawesi, as well as the Rohingyas from Myanmar. A South Thailand 'jihadist' group based in Narathiwat has also been implicated (see <http://www2.mha.gov.sg/mha/detailed.jsp?artid=550&type=4&root=0&parent=0&cat=0>).
32. Dan Murphy, "How Al Qaeda Lit the Bali Fuse: Part One", *Christian Science Monitor*, 17 June 2003.
33. Zachary Abuza, quoted by Shefali Rekhi in "Married to Al-Qaeda — Another Strategy used by the Terror Network Surfaces: Taking Young Brides to Infiltrate and Mobilize Local Communities," *Straits Times*, 17 November 2002.
34. The Singapore White Paper also states that Al-Qaeda has links with a further two

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organizations in Indonesia — Laskar Jihad ('Army of Jihad' or 'Holy War Warriors') and the Majelis Mujahidin Indonesia (MMI, or 'Indonesian Mujahidin Council').

35. Radio Singapore International, "Singapore Government Reveals Jemaah Islamiyah Attack Plans in a White Paper", 9 January 2003, <http://www.rsi.com.sg/en/programmes/newsline/2003/01/09_01_012.htm>.
36. The acronym PUPJI stands for *Pedoman Umum Perjuangan al-Jamaah al-Islamiyah*. The JI structure elaborated above draws heavily on the ICG Asia Report no. 63, *Jemaah Islamiyah in South East Asia: Damaged but still Dangerous*, 26 August 2003 (see especially pp. 11–13), and the structure described in the 2003 Singapore Government White Paper (see pp. 10–11). The organizational structure was also described by Singapore's Ambassador to the UN, Kishore Mahbubani, in his request for the JI to be listed by the UN as a terrorist group. See Ministry of Foreign Affairs, Singapore, "MFA Press Statement on the Request for Addition of Jemaah Islamiah to List of Terrorists Maintained by the UN", 23 October 2002.
37. The incorporation of Southern Thailand into the JI Mantiqi 1 structure is based on the article by Rohan Gunaratna, "The Links that Bind Terror Groups", *Guardian*, 15 October 2002.
38. The Singapore, Malaysia and Southern Thailand mantiqi was formerly headed by Hambali (a.k.a. Riduan Isamuddin) who is now in U.S. custody following his arrest in August 2003 in Bangkok.
39. ICG Asia Report no. 63, *Jemaah Islamiyah in South East Asia: Damaged but still Dangerous*, 26 August 2003, p. 11.
40. Ibid.
41. CNN, "Philippines Captures 'top Abu Sayyaf leader," 19 October 2002, <http://www.intellnet.org/news/2002/10/19/12727-1.html>.
42. Manila Inquirer, "Hunt on for al-Qaeda Men Tagged by Arrested Indonesia," 18 January 2002, <http://www.inq7.net/nat/2002/jan/19/nat_2-1.htm>.
43. Straits Times, 14 October 2003.
44. Jack Kelley, U.S.A. Today, "Malaysia Site of Sept. 11 Plotting, FBI Report Says," January 30, 2002, <http://www.usatoday.com/news/attack/2002/01/29/usat-malaysia.htm>.
45. Ibid.
46. <http://www.cbsnews.com/stories/2003/04/24/attack/main551011.html>, "Moussaoui spoke of the dream at the home of Faiz Bafana, a member of Jemaah Islamiyah, a Southast Asian group the United States says has links to the al Qaeda terrorist network. Bafana reportedly has been interviewed by U.S. officials."
47. International Crisis Group, Al-Qaeda in Southeast Asia: the Case of the Ngruki Network in Indonesia, 8 August 2002, pp. 10–12.
48. Others received military-style training in Mindanao (at the MILF Abu Bakar camp) and in Malaysia.
49. Singapore Government Press Statement on Further Arrests Under the Internal Security Act, 16 August 2002, <http://www.channelnewsasia.com/cna/arrests/press_020919.htm>.
50. The Singapore JI branch was started by one of Abu Jibril's converts, the self-taught religious teacher Ibrahim Maidin.
51. It is significant that although they were taught to hate the U.S., several of the Jemaah Islamiyah terrorists arrested in Singapore have said that they no personal grievance with Americans. One of them, an engineer, Hashim Abas claimed that personally he was very happy working for his American employer who had treated him well. However, when called upon to do his bit for jihad, he and Khalim Jaffar meticulously recconoitred the American shuttle buses at Yishun MRT (metropolitan

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train) station for bombing, a plan conveyed to the Al-Qaeda by Khalim in 1999 when he was in Afghanistan. For reasons unknown, the plan was eventually not pursued, purportedly stopped by Osama bin Laden.

52. All 31 of the arrested Singapore JI members had received a secular education and most held respectable jobs. However, most regarded religion as their most important personal value over economic, spiritual, or social values.
53. It is noted in the Singapore Government's press statement, following the second round of JI arrests, that the attacks on key Singapore installations were intended to be perceived as acts of aggression from the Malaysian Government. Hambali and his counterparts hoped to exploit Singapore-Malaysia tensions aimed at stirring up ethnic strife between a 'Chinese Singapore' and Malays/Muslims in Malaysia.
54. The Jemaah Islamiyah Arrests and the Threat of Terrorism, p. 17.

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Contemporary Southeast Asia 25, no. 3 (2003): 508–31 ISSN 0219-797X

Book Reviews

Regional Security Structures in Asia. **By Ashok Kapur.** London and New York: RoutledgeCurzon, 2003. 198pp.

This book makes an important contribution to the literature on the study of Asian international relations. Ashok Kapur adopts a different position on the study of this vast subject by claiming that too much attention has been given in the literature to the Cold War and bipolarity while insufficient emphasis has been put on the notions of regional power formation as well as conflict formation and resolution. The author argues that these and other concepts discussed in the book are essential for studying international relations in Asia. The other concepts include multipolarity as well as global and regional hegemonies.

Kapur is interested in understanding the shift from conflict formation to conflict resolution in the context of North Asia, South Asia and Southeast Asia, particularly with regards to "the major geo-political pivots which dominate the Asian strategic landscape" (p. 3). These pivots in the post-Cold War era are the Korean peninsula, Taiwan and the South China Sea, the Northwest part of the Indian subcontinent, the Eastern zone of the Indian subcontinent, and the ASEAN region. Rather than adopting a traditional "top-down approach" to the study of Asian international relations, Kapur judiciously uses a "bottom-up" approach that concentrates on regional dynamics and their interactions with international affairs. The author relies on and modifies the works of Barry Buzan on "regional security complexes" and R. Vayrynen on "regional conflict formation" and "regional power and structures".

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Chapters 2, 3 and 4 provide the historical and political context of the book. The second chapter offers an interesting discussion on the growing importance of Asia over the last 500 years, although it is not always clear how it contributes to the claims mentioned above. Chapter 3 is, in contrast, much more relevant to the themes of the book. It examines the evolving international structures in Asia, discussing the declining influence of the great powers and the rising power of regional actors as well as how these changes in the distribution of power may lead towards new bargaining relations. Chapter 4 is a fascinating discussion on the movements of great powers in Asia during the 19th and 20th centuries.

Kapur covers a broad geographical area and historical period and makes a series of arguments on the security structures in Asia. Due to space constraints, I will focus on three central ideas and concepts developed in the following chapters, namely, the decline of the great powers in Asia and the rising power of regional actors, the notion of multipolarity, and the ongoing importance of geo-politics.

Kapur considers the great powers, Russia and the United States, to be in decline in the Asia-Pacific. Though this is stating the obvious in the case of the former, to make a similar claim with reference to the United States is much more debatable. Kapur develops this argument in Chapter 5 when stating that the United States "cannot alone keep the peace in troublesome regions, it cannot prevent the rise of regional hegemons, it cannot alone manage the ethnic and Islamic battlefields, and it cannot prevent the growth of new international battlefields" (p. 100). The United States needs therefore to cooperate with other actors to pursue its interests, which Kupar regards as an indication of its declining power in the region. Simultaneously, regional powers benefit from "enhanced freedom of action and bargaining opportunities" (p. 41).

The argument on the decline of the United States is debatable due to several reasons. First and foremost, U.S. reliance on allies and regional partners to promote its interests should not automatically be viewed as a sign of weakness but simply as a dimension of power politics. In fact, this is how the United States has exercised power successfully in most parts of the world since the end of the Second World War, particularly in Asia, Europe, and Latin America. Moreover, the decline of the United States is an old debate that brings us back to the early 1990s and the consequences of the end of the Cold War. It was feared at the time that the United States might disengage from the region. Instead, it rapidly indicated its intention to remain a regional power and demonstrated its unchallenged military capability in

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operation Desert Storm in 1991. Finally, most regional policy-makers and experts are now concerned not with a declining U.S. power but with its enormous preponderance in military power and the resurgence of a U.S. unilateralist foreign policy under the Bush administration.

Chapters 6, 7 and 8 focus on the concept of multipolarity as the central character of the Asian security structure. Kapur argues that regional multipolarity is based on the United States and China but also Russia, Japan, India and other players and that it is expressed in the five geo-political pivots mentioned above. The attention is thus given to multipolarity in contrast to unipolarity, bipolarity or multilateralism. Discussing the absence of the latter in Asia, Kapur argues that "unlike Europe there is no security architecture or a tradition of multilateral discourse and conflict resolution among competing nations" (p. 121). In contrast, Asia is said to be "a geo-political jungle" (p. 121).

China, and to a lesser extent India, certainly support this multipolar perspective defined with reference to countering America's unipolar status in the post-Cold War era. It is striking, however, that Kapur does not pay any attention to formal multilateral institutions in Asia as possible promoters of peace and stability nor does he include them as actors of the regional security structure. ASEAN, the ARF or SAARC, to mention only these three, are not mentioned as multilateral arrangements that can influence security relations by changing the behaviour of states. Rather than a weakness of the book, this constitutes a challenge to those who claim the relevance of these institutions in Asian international relations. Yet, Kapur also sometimes confuses multipolarity for multilateralism, which can be defined as principled interaction among regional states with the goal of managing conflict and building political and economic cooperation. He fails to acknowledge that some regional relationships are ordered and organized on the basis of principles and therefore represent examples of multilateralism. This is true in the case of the ASEAN region but also to some extent with reference to current multilateral efforts involving six different parties to find a solution to the North Korean nuclear weapons programme.

Chapter 9 examines the future of geo-politics in Asian international relations in a post-September 11 security architecture. Rather than referring to a new era in international politics, the author demonstrates the continuing importance of geo-politics in Asia. To argue for the ongoing centrality of geo-politics offers a refreshing change from the current literature on Asian security that focuses more on the threat of terrorism and non-state actors, the role of formal institutions and other matters. Despite September 11, the Asian strategic environment has not gone through a radical transformation, as the principal security structures

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have essentially remained unchanged. Kapur argues that September 11 "did not alter the constant elements in Asian international relations but it defined clearly the nature of the problem and the nature of the policies of the main powers" (p. 169). The central contention is said to be between the doctrines of "just war" and "holy war" — the former located within the nation-state system while the latter occurs between believers and non-believers.

The very ambitious nature of the book and the broad geographical area it covers mean that some claims tend to be too diffused and not sufficiently applied to the different sub-regions. South Asia is very well covered while much less attention is given to the international relations of Southeast Asia. Kapur refers for instance to Vietnam and Indonesia as sub-regional hegemons without telling us more about why they hold these positions and how they exercise power. It also begs the question whether the three sub-regions might be too distinct as regional security complexes to make general arguments on Asian security.

Nonetheless, the book makes an important contribution to the scholarship on Asian international relations by challenging standard beliefs on the explanatory factors of the Cold War and bipolarity and focusing instead on several other useful concepts. Its discussions on multipolarity as well as regional hegemonies are particularly relevant to understanding the security structures and geo-politics of the region both during and since the end of the Cold War. They are also a clear demonstration of the realist arguments developed in the book.

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The Political Economy of Cambodia's Transition, 1991–2001. **By Caroline Hughes**, London & New York: RoutledgeCurzon, 2003. 260pp.

For a small country, Cambodia has attracted considerable scholarly and political attention internationally. Hughes' book is another addition to the growing literature on post-Cold War Cambodia on a theme that has drawn little attention prior to the 1990s: democratization and civil society. The book focuses on the political and economic transformations in Cambodia from 1991–2001 and how they impact upon the emergence and development of substantive democracy in the country. Specifically,

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the book seeks to demonstrate how the transition from a central, command economy to a market economy shaped the trajectory of politics in Cambodia and the role of international intervention in putting pressure on the Cambodian state to democratize.

The beginning of the 1990s was significant for Cambodia in many respects. It marked the beginning of the end of an era of political turbulence in the country, paving the way for the political, economic and social reconstruction of Cambodia. According to Hughes, there are three strands of transition that took place in Cambodia during the period under study. The first was the transition from command economy to free market economy, the second being the transition from war to peace and finally the transition from authoritarian rule to democracy. Hughes contends that the most important strand was the economic transition as this influenced the other two strands. The background and the context of the economic reforms of the 1980s which propelled the rapid process of political change are discussed in Chapter 2. Changes in the command economy took place in the mid-1980s as a response to the "failures of collectivization" (p. 28), and as a result of concurrent changes throughout the Soviet bloc resulting from Gorbachev's reforms in the USSR. More important perhaps for the developments in Cambodia were the reforms taking place in Vietnam, which eased the pressure on Cambodia of having to be accountable to Vietnam. The implementation of economic reform policies of 1989 prompted a dramatic increase in economic activities in the state. It is argued that the economic liberalization helped consolidate the state-making process, although at the same time it led to unequal distribution of resources and abuse of power.

The impact of the economic reforms of the 1990s on the nature of state and its relations with society is discussed in Chapter 3. It is argued that while economic reforms contributed to consolidating the position of the state, this has also led to increasingly exploitative relations between state and society at large. Hughes argues that it has undermined the capacity of society to resist intensified state exploitation. The availability of resources to the central government from international organizations and foreign investments and its control of these resources gave the government the economic leverage to secure the loyalty of officers both at central and local government levels. The opportunities for economic gain through association with the state led to increasing integration of state employees more closely into the state structure and created a strong dependency on the state. The state's economic power, Hughes argues, undermines the capacity of society to resist intensified state exploitation, thus making it difficult for the expansion of civil society in Cambodia.

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However, Hughes concedes that there are limits to the central government's use of economic resources for its own benefit. As the dividends of this transition are not evenly distributed, it creates dissatisfaction among those who are excluded and those who do not stand to gain from the economic reforms. These groups include those in urban centres and rural villages. State control also diminishes in the periphery due to the lack of resources to be distributed (as part of the regime's efforts to secure loyalty). This problem is exacerbated by the control of available resources by local governments in rural areas where the central government or international agencies find it difficult to penetrate.

The consolidation of the state through regime maintenance is further discussed in Chapter 4. The Cambodian People's Party (CPP), which presided over the state reforms, has attempted to preserve its dominance in Cambodian national politics through various means. It reinvented itself by abandoning the "justificatory framework of socialist ideology" and "distancing itself from the rhetoric of socialist fraternity with Vietnam that has been the characteristic since the 1980s (p. 58) — a sentiment appealing to Cambodians. This was a dilemma for Cambodia, although the book does not elaborate on how this was finally resolved. Obviously socialist ideology and socialist fraternity with Vietnam are intertwined elements which have not been popular in Cambodia. Abandoning them was more than just a government's effort to "win electoral legitimacy for economic reforms". A more profound analysis of the reasons and the consequences of the abandonment of these elements would have shed light on the dilemma faced by a regime whose predecessors were propelled to power under socialism. Winning electoral legitimacy is only a part of the picture. Conforming to both internal and international realities and pressures is the larger picture. For Cambodia, abandoning socialism was a necessitated choice with happy results for the regime and the country at large. The people had had enough of socialism; they were prepared to abandon it even without the obvious and immediate economic benefits. The economic reforms and its consequences rendered irrelevant socialism's *raison d'etre* in Cambodia.

Pertinent to the discussion of state-society relations is the argument that the reforms produced a "modified" version of the existing patron-client relationship between state and society. The author identifies groups based in the military and state bureaucracy as those who form part of this modified patron-clientism (p. 61), and whose loyalties and support are obtained through the offer of resources including "access to posts, perquisites, [and] opportunities for rent-seeking" which differs from the welfare subsidies given in earlier years. This method

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strengthened the party although it led to vote-buying, surveillance, corruption, and nepotism. Hughes also argues that, for the government, securing dominance is easier in rural Cambodia than among the urban élite. In pursuing this line of argument, she puts forward a seemingly contradictory proposition that while the rural villages do not gain most from economic reforms, the government has more extensive control over these groups than they do over the urban groups.

Having thus established its dominance in its relations with society through economic and political means, the state can now respond to the external pressures for democratization. The role played by the international community in the three strands of transition is significant in many respects. Hughes identifies two strands as underlying international interventionary policies: human rights and economics, both having profound implications for the nature of Cambodian politics in the 1990s. International intervention is seen as contributing to the creation of "new arenas of political struggle both within and without Cambodia (p. 86). The new Cambodia has become the "testing ground for interventionary policies of multilateral conflict management, peace-building, democratic enlargement, good governance and poverty alleviation" (p. 87). This might be stretching the limits, but the consolation is that for the first time in its recent history, international intervention has brought some positive impact to Cambodia.

However, Hughes cautions that there are limitations to the role of international intervention in promoting democracy in Cambodia. The impact of international interventionary policies is mostly felt in the urban centre — Phnom Penh — and hardly in rural villages where the government and local authorities still have the monopoly of resources for distribution to obtain loyalty and support. She argues that the "internationally promoted and supported spheres of Cambodian political and civil society have expanded at the expense of the state-dominated sphere only in the urban areas" (p. 141). Yet, the author maintains that for all their limitations, the international society and NGOs, together with the multi-party sphere, represent the "best opportunity for revitalizing Cambodia's democratic aspiration" (p. 141).

The weakness of Cambodian political structures and the slow development of civil society in Cambodia are further discussed in Chapters 6 and 7. The two are interrelated. The weakness of Cambodian politics can be largely traced to the reconsolidation of the CPP through monopolizing economic resources and excluding its opponents from executive power and rural political arena. According to Hughes, all other political groups, including FUNCINPEC (National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia) have

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declined in power and popularity as none of them can compete or challenge the dominance of the CPP. Hughes argues that the lack of economic resources to secure loyalties does not help to create a "resource-rich terrain that can sustain a democratizing civil society in the short term" (p. 141). However, all is not lost. The prospect for the future of democracy in Cambodia lies in the ability of the urban centre (Phnom Penh) to develop and expand the emerging urban protest movement of the late 1990s into a wider national movement which could domestically pressure the state to democratize. If they can manipulate and co-opt both local and international resources, urban groups will be able to resist the state's attempts to monopolize the country's political spheres.

Throughout her book, Hughes emphasizes that economic reform has been the most influential factor shaping Cambodian politics since the 1990s. It is also the most important element shaping the development of civil society in Cambodia. The powers of the state and its relations with society are closely linked and framed by the economic transition, itself a product of international and domestic changes. What is interesting is the importance of, and the hope placed on international intervention as providing the best possible conditions for sustaining civil society in Cambodia — a theme that is the author's preoccupation. Given the current global interest in democratization and the expansion of civil society (and especially how it can develop in adverse conditions), this study is timely. It relies on an impressive range of sources, both primary and secondary. The book is a valuable contribution to the study of the "new Cambodia", in its hopes, fears, and dilemmas as it emerges cautiously from the ashes of its turbulent past.

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***Burma's Armed Forces: Power without Glory*. By Andrew Selth.** Norwalk: Conn.: EastBridge, 2002. 371 pp.

If Selth wrote this book in the mid-1970s when he was posted to the Australian Embassy in Rangoon (now Yangon) the sub-title might have been "Power with Glory". Much earlier, in the early 1950s, during the first few years of Myanmar's independence, when the armed forces of the newly minted state fought successfully to turn the tide of the civil

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war against overwhelming odds, the sub-title could have been "Glory without Power".

Among the world's military forces of the 21st century, the Myanmar Armed Forces (MAF), which uses the vernacular term *Tatmadaw* (literally the royal force) and controls state power through the ruling State Peace and Development Council (SPDC), is unique in that it has held the reins of power for some three-quarters of the period since the country gained independence from the British in 1948. Its "glory" derives from its role in the legendary account of Myanmar's independence movement. The Burma Independence Army (BIA), the progenitor of the MAF, was a quasi-political entity founded by nationalists of socialist persuasion under the auspices of the Imperial Japanese Army in December 1941 to drive the British colonialists out of the country. The most glorious episode of the MAF's history was the "anti-fascist revolution" formally launched on 27 March 1945 against the erstwhile Japanese allies who had turned into oppressors. That date later became the historic reference point for the yearly commemorative event marking "Tatmadaw Day". As for the "power", it has been relentlessly growing for the last four decades as evident from Selth's account of the MAF's organizational development and its accumulation of human and material resources.

The book under review is the culmination of the author's 25 years of observing Myanmar from near and afar. In terms of content, organization and style it can be regarded as a "full-scale model" of the earlier "pilot project" which manifested in the form of a monograph written in 1995 (Andrew Selth, *Transforming the Tatmadaw: The Burmese Armed Forces Since 1988*. Canberra: Strategic and Defence Studies Centre [SDSC], Australian National University, 1996). In fact, of the twelve chapters, nine are updates, expanded or reduced versions of the author's working papers, articles and chapters from *Transforming the Tatmadaw*. The author also seems to have benefited from the works (p. 328) of Maung Aung Myoe who did his doctoral dissertation on the MAF at the SDSC in the late 1990s. Though it took a historical perspective, the emphasis was on the period after 18 September 1988, when the military took over state power and subsequently initiated an ongoing process of force modernization and military reorganization.

The organization of the chapters begins with the "strategic setting" followed by the software of defence establishment (policies and threat perceptions, organizational structure, recruitment, training and doctrine); the underpinnings (intelligence and economic dimensions); the hardware (the military dimension of the three services and associated weapon systems); and, finally, the current and future role of the MAF in the context of the ongoing political transition.

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The author has meticulously collated and scrutinized data and information from a wide range of "open" sources, augmented by personal observations and selected interviews and has produced a coherent, comprehensive and informative body of knowledge on the MAF. Of course, any study that relies on a wide variety of secondary sources and accounts given by "anonymous" dissidents, deserters, opponents and "insiders" must be treated with caution as they inevitably are coloured by the authors' perceptions and interviewees' personal interests and motives. This is especially so because of the highly emotional, personal and ideological nature of the contention between the protagonists. As for the MAF sources themselves, there is also a distinct possibility of being influenced by psychological warfare and disinformation efforts that are part and parcel of the regime's repertoire to preserve and enhance "national security". Nevertheless, Selth's extensive and detailed notes and citations allow the knowledgeable reader to gauge the veracity and reliability of the information. This is probably the best one can do under such trying circumstances in a state where there is pervasive control over all sources of information.

In Chapter 1, the author discusses the geopolitics of Myanmar in terms of having gigantic neighbours in the form of China and India in the context of regional rivalry between the two. He rightly points out that "the military government has become adept at exploiting Burma's geostrategic position and manipulating the concerns of its regional neighbours" to its advantage (p. 20). In fact, while managing to turn India around from its pro-opposition stance to become an increasingly significant partner in economic and security cooperation the regime has, thus far, avoided becoming a "satellite" or "client" state of China.

The second chapter attempts to identify and delineate the elusive defence policies and threat perceptions of the ruling junta by scrutinizing the speeches of the military leaders and a very small body of literature attributed to native writers. To him, "an examination of the regime's defence policies and threat perceptions" revealed a "persistent sense of vulnerability" (p. 43). One may add that the recent American unilateral action in Iraq probably heightened the concomitant "siege mentality" that derives from such a perception.

In the chapter on "structure and organization", the author devotes a substantial portion of the narrative to describing the MAF's recent attempt to embrace the concepts and associated technology of "information warfare". He also elaborates on the changes in the command hierarchy, apparently to accommodate the expansion and reorganization of the MAF from a counterinsurgency (COIN) force to a more conventional war-fighting posture. The MAF top brass underwent several exercises of rank upgrading in the last dozen years that saw the creation of two new ranks of "Senior General" (possible equivalent of a "six star

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general") for the junta chairman and the Commander-in-Chief [C-in-C] of the MAF; and "Vice Senior General" (possible equivalent of a "five star general") for the Army C-in-C and the Deputy C-in-C of the MAF, as well as over 100 general officer positions (one star and above in the American system — up from fewer than 20 in 1988) in various command and staff positions. Since this chapter was written there was another military shakeup and promotion exercise toward the end of 2001 whereby all the regional commanders who have been concurrently members of the ruling SPDC were brought to Yangon with promotion to three-stars rank to assume newly created and vacant command and staff positions. The new positions are reported to be: chief of joint staff (tri-services); four chiefs of bureaux of special operations; chief of air defence; chief of armed forces training; and chief of defence industries and ordnance. Subsequently the office of strategic studies (OSS; see Figure 5, pp. 56–7; Figure 8, p. 110; p. 113; and Figure 9, p. 117) was abolished and intelligence chief Lt General Khin Nyunt was promoted to become a full general in 2003, outranking all the other officers apart from the C-in-C and Deputy C-in-C. Another new development was the shifting of the Defence Ministry premises from a busy neighbourhood in central Yangon (n. 3, p. 71) to a more secure and exclusive place beside the intelligence headquarters and close to the newly built housing estate slated for the MAF's top leadership.

The next chapter on "recruitment, training and doctrine" describes how the human resources and operating principles of the MAF had been nurtured and developed and appears to rely heavily on the works of Maung Aung Myoe published by the SDSC in Canberra (see p. 328). It notes that the MAF, though having developed strategies and doctrines oriented towards conventional warfare against external enemies, has retained the COIN thrust as well and has also not discarded the "people's war" concept adopted in the 1960s and 1970s. The author, however, does not elaborate on how these three concepts that demand different (at times divergent) organizational and operational approaches are reconciled and rationalized in the MAF's defence strategy and doctrines.

Chapter 5 bravely tries to piece together circumstantial evidence and disparate data on military intelligence service (popularly known as MIS) — the most feared but least known appendage of the MAF. The author refers to some "intelligence failures" of the much-vaunted MIS (pp. 121–3) and attributes them to a number of factors that include: frequent purges; an extensive field of coverage (especially for political dissent) that entails a deluge of raw information; and systemic problems associated with a "closed society" bordering on the paranoid (pp. 122–3).

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The next chapter focuses on the so-called "economic dimension" by discussing defence expenditures (fraught with information gaps and unsubstantiated data) as well as procurement and production of weapons and military *matérial*. A brief description of the MAF's business ventures and off-budget sources of income that make up the rest of the chapter is the most interesting section but it merely whets the appetite of the reader who ends up craving for more information and analysis.

The three chapters that follow describe the evolution of the army, navy, and air force into the present order of battle. It is abundantly clear that the army took priority over the two sister services and was dominant in all aspects up to the end of the 1980s. Though more resources had since been allocated to modernize the navy and air force in order to accommodate the externally-oriented threat perceptions, the army is still the top service by virtue of sheer numbers and the dominant role of its leadership in governance and administration of the state.

Chapter 10, on "exotic weapons", is a rather quixotic component of this book relying mainly on circumstantial evidence and informed speculation. One wonders whether the author has been reading too much in between the lines in pursuing this elusive quarry — and the ongoing saga of the yet to be successful search for the Iraqi weapons of mass destruction (WMD) comes to mind on reading this chapter.

The penultimate chapter on the current status and role of the MAF touches on the internal dynamics of the officer corps and the question of unity with the MAF which are very important issues in the context of the MAF's self-professed role of guarantor as well as the embodiment of state authority, implying that the MAF is not only an instrument but also a determinant of state power. There, the reviewer concurs with the author's conclusion that despite "policy disagreements and personal differences" (p. 262) among the officer corps, a "major split in the armed forces is still unlikely" (p. 267). As the MAF continues to retain the "dual function" role *(this* predates by nearly a decade the Indonesian New Order's articulation of the *dwifungsi* concept), it appears to have "mortgaged Burma's vast and diverse political, economic and social resources to continued dependence on military strength" (p. 271). Selth seems to believe that the future stability and prosperity of the country will depend on the MAF's "willingness to contemplate a future in which the *Tatmadaw* does not have first call on its resources and is not the sole source of political power"(p. 271). Speculation on whether this would manifest is the focus of the next chapter.

The last chapter entitled "The *Tatmadaw* in a Democracy" compares alternative visions of how the MAF would be restructured to serve a democratic regime as espoused by the opposition movement led by the 1991 Nobel laureate Daw Aung San Suu Kyi (the de facto leader of the

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party that overwhelmingly won the May 1990 elections, and the icon of democracy). It also contains some observations on the practicality of those visions as well as a measure of prescription on how to realize such a transformation of the MAF under civilian rule. Selth rightly notes that "under current circumstances, a peaceful transition to democratic rule can only occur with its [MAF's] concurrence, if not active support" (p. 290). As such, the most important goal would be to allay the junta's fears of retribution against MAF personnel. If a compromise between the pro-democracy movement and the MAF cannot be reached, the MAF's "real military capabilities will remain limited and its professionalism suspect" (p. 290).

The two appendices on the "order of battle" and statistics of "defence expenditures" would appeal more to the specialist reader. Despite the author's qualifications and caveats regarding the degree of robustness of the data, they would appear to be confusing to the uninitiated. It would have been extremely helpful if the author provided the status of the weapon (whether it is obsolete or likely to have been unserviceable) besides the particular entry in the lists. For Appendix 2 too, it would be most revealing if the author could provide expenditures for health and education together with the figure for defence in the table showing the amounts in local currency, i.e. Kyats (p. 314).

All in all, this book is a significant addition to a very small body of works on the MAF and the author should be commended for his Herculean task in assembling a reader-friendly portrait of the MAF from a vast amount of disparate information over many years. It would benefit not only those interested in the MAF but also those in the area studies community as well as students of civil-military relations, comparative politics, and international relations.

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***India as an Emerging Power*. Edited by Sumit Ganguly**. London & Portland, Oregon: Frank Cass, 2003. 233pp.

This book looks at India's potential to emerge as a major power, with contributions from eight scholars together with an introduction by the editor. It addresses the issue of India's strengths and weaknesses by

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delving into various aspects of India's foreign, economic and security policies, as well as its relations with neighbours and major external powers. India has for several years been regarded as an emerging or rising state. It had always been the predominant power in South Asia. The question now is whether it can transcend its influence beyond South Asia and can emerge as a major Asian power? That is the main thrust of the study by Sumit Ganguly and others.

The theme of India's power and influence in world affairs is not new. India's enormous size especially in terms of its population, rich natural resources and its strategic location together with a civilizational past has long convinced Indian leaders of an imperative for playing an international role. The main plank of Indian foreign policy, non-alignment, was fashioned and re-fashioned by its leaders essentially to preserve the country's independence and to maintain a balance in its relationship with the two superpowers. The strategy was aimed at drawing economic and technological aid for development from both powers as well as to provide an alternative model of international relations in a world which was then intensely bipolar. India's policy was aimed at creating a cushion between blocs and reducing the likelihood of overt conflict, and ultimately transforming a bipolar system to a polycentric or a multipolar system.

Non-alignment gave India an international profile (soft power) larger than was warranted by its economic and military strength (hard power). It made it possible for India to maintain normal relations with all the major world powers, with varying degrees of warmth and intimacy, while facilitating the flow of technical and financial assistance from the two ideological blocs. In short, non-alignment gave India the maximum possible dividends in a bipolar world. India's profile and influence, however, were not always balanced during this period; both external and internal factors combined (in the later years of the Nehru era and after), to deprive non-alignment some of its élan and effectiveness. Externally, India's defeat at the hands of China in 1962 proved to be a major setback, and the relationship of near-permanent hostility with Pakistan exercised a disabling effect on India's foreign policy. Internally it was seen as a crisis-ridden country with poor economic performance. Militarily, it could not elevate itself to the status of a major power as China did by exercising its nuclear option in 1964 despite its poor economic base.

Under Nehru's successors, Indian defence policy increasingly came to embrace a realist outlook. In the absence of reliable, powerful patrons, India resorted to the strategy of self-help to protect its security interests. Even though the United States was keen on protecting India from

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Chinese military pressures, support was not forthcoming. The American military dependence on Pakistan for bases coupled with "India's neuralgic insistence on nonalignment", (p. 2) to quote Sumit Ganguly, the editor of the volume, "foreclosed the prospects of an Indo-U.S. security relationship". The principal thrust of India's foreign policy under Indira Gandhi was more power and region-oriented than one of seeking out a new global role for itself. This she did by keeping the nuclear option open by conducting an underground nuclear explosion in May 1974, and launching India's own satellite launching vehicle, SLV-3 into outer space in July 1980, thus placing in orbit an indigenously designed and built 35 kilogram satellite. Once India established itself as a regional power, Indira did make some attempts to seek a more global role by travelling overseas more frequently, attending the North-South Conference in Cancun in April 1981, and by hosting the Non-Aligned and Commonwealth summits in 1983. However, all these initiatives did not lead to the establishment of a real framework that would establish the parameters of India's new global role.

What brought the change in perspectives on India in the post-Cold War era? To quote Stephen P. Cohen, another contributor to the volume: "After decades of unfulfilled promise, it now seems to be inching ahead, with more rapid economic growth, new attention from the major powers, and the development of a modest nuclear arsenal. Adding these developments to India's traditional strengths — a unique and persistent democracy and an influential culture — it is no wonder that many have predicted the emergence of India as a major Asian power, or even a world class state" (p. 32). To Cohen's list one may add the power of India's Silicon Valley and its IT specialists.

One additional factor which contributed greatly in recent years in changing the way the United States views India is the growing clout of the Indo-American community in the United States. Indian-Americans have organized themselves and emerged as a powerful lobby in American politics and foreign policy. As Indian troops fought to repel a Pakistani incursion in Kargil in 1999, key staff members were bombarded with demands from Indian immigrants for a resolution condemning Pakistan's "aggression". U.S. lawmakers eventually complied, and a few days later, according to two senior American administration officials with direct knowledge of the conversation in a White House meeting on 4 July 1999, the President cited Congressional pressure in urging the now ousted Pakistani Prime Minister Nawaz Sharif, to withdraw his forces.

In the final analysis, however, it was the change in India's economic profile resulting from the liberalization and opening up of its economy

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to global competition together with progress of its nuclear programme that lent India its current status as an emerging Asian power. As for the economic reforms, the outcome has been quite significant. Shortly after embarking upon its reforms, India's growth rate climbed from about five per cent or less to about seven per cent per annum. Even during the Asian economic crisis, when most of the economies in the region showed a negative growth rate, India was able to post a five to six per cent growth rate. The path of economic reform has not been easy, as pointed out by Sunila Kale in her essay in the volume on the political economy of India's second-generation reforms, essentially because of India's democratic trap of functioning under the compulsions of a strong trade union movement and electoral politics. Her essay analyses the broad failure of India's attempts to deregulate its economy in the 1990s and the comparative success of privatization efforts since 2000. Kale suggests that the growing, though still limited, success with privatization is due largely to the new institutional environment of competitive investment unleashed by earlier waves of market reform. But barriers still remain. At the material level, these bottlenecks involve weak infrastructure in the pivotal areas of transportation, telecommunications, and power. At the socio-political level, critical reforms, especially in the labour and financial sectors, remain in abeyance. Eventually, India's chances of emerging as a major power will be contingent on its acceleration of economic reforms to achieve a growth rate of between nine to ten per cent within this decade.

India's nuclear programme is a function of finding new means to assure the country's security against strategic uncertainty in the post-Cold War period and the possibilities of future Chinese nuclear blackmail. Ashley Tellis narrates the likely evolution of the Indian nuclear weapons programme which is defined as a "force-in-being" that exhibits a deterrent capability based on available but dispersed components capable of being constituted into usable nuclear weapons systems during a supreme emergency, and even after enduring an enemy nuclear strike. And he rightly argues that India's nuclear posture will be limited in size, separated in geographical disposition, and centralized in command. India's decision to challenge the existing global nuclear order initially led to significant setbacks in its relations with the United States, but as Ganguly suggests "adroit diplomacy enabled India's leadership over the course of the next year to repair much of the rift that the nuclear tests had generated" (p. 3).

Indo-American relations had already shown certain improvements in the 1990s due to India's opening of its economy, termination of its close ties to the erstwhile Soviet Union, and the consequential absence

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of anti-American rhetoric. The relationship has gathered strength under the Bush administration, and particularly after the events of 11 September 2001, guided by common concern about the menace of terrorism. However, Robert Haithaway argues that the relationship is still far from being a strategic partnership because of the divergences on nuclear proliferation, the emergence of China as a world power, the pace of India's economic liberalization and India-Pakistan tensions. He concludes by saying that a strategic partnership is achievable, but India will need to keep U.S. interests constantly in focus — a reality no country aspiring to be a regional or global power can ignore.

That brings the discussion to another hurdle in India's path to achieving major power status, namely India-Pakistan relations. For Stephen Cohen, the India-Pakistan conflict has taken a new, nuclear turn, making South Asia one of the most dangerous places in the world, with the intractable Kashmir dispute representing only one aspect of the larger struggle between the two states. After discussing a variety of possible scenarios of conflict resolution, Cohen argues that little progress is likely without the involvement of a powerful external actor, namely the United States. Notwithstanding brilliant arguments in favour of all his propositions, one may raise issues with most of them. India wants to approach the problems in the relationship beyond Kashmir to open up economic and trade links so that a certain element of interdependence and economic stakes emerge between the two countries, facilitating compromise and concessions on Kashmir at a future date. Pakistan fears that opening economic and trade links between the two countries and the benefits that would accrue to their own people might lead to a diffusion of Kashmir as a "non-issue", as people begin to realize the cost of that misadventure. That is why Pakistan opposes any improvement of relations on any other front before the Kashmir problem is resolved.

Similarly Cohen's argument about American involvement in the resolution of the conflict does not stand scrutiny. Like the Arab-Israeli dispute, the U.S. has not been an impartial and a benign power in the India-Pakistan equation. Despite the prophets of doom, South Asia is not the most dangerous place in the world. If it has become a dangerous place, it is not because of nuclear proliferation, which the reviewer would argue has removed the chances of a full-scale conventional war between the two countries, but because of the presence of an infrastructure of terror in the *madrasahs* of Pakistan, supported and abetted by Pakistan's Inter Service Intelligence (ISI). It is not only India-Pakistan relations that is hostage to these terror networks, but also regional and global peace and stability. Until that terror network is destroyed, the war on global terrorism will not be over. India-Pakistan relations will remain a bleeding sore for quite some time to come.

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India's relations with its other contentious neighbour, China, is the focus of John Garver who finds a considerable gap between China's public rhetoric and its internal assessments of India's capabilities and intentions. Both China and India in recent years have been able to overcome their unpleasant past and concentrate more on finding advantages in each other's markets. As a result, economic and trade relations have improved five-fold in the last couple of years. However, given the history of past mistrust, divergent regional security goals and interests, and the persistence of a border dispute, any improvement of Sino-Indian relations could only be gradual and incremental.

The end of the Cold War has opened new opportunities for India to refashion its relations with other states, such as France and Israel — the former in the context of a common concern over American hegemony, and the latter in the backdrop of both being the victims of terrorist threats. Jean-Luc Racine narrates the growing warmth between India and France in their desire for a multipolar world, one that would give greater weight to their interests and the interests of other middle-level powers. P.R. Kumaraswamy examines the new trends in India-Israel relations, which has a certain robustness in areas ranging from trade to arms transfers. The recent visit (September 2003) of the Israeli Prime Minister to India and the agreement to transfer certain important weapons systems further consolidated that bond.

One area where India has made a dynamic move and established its constructive presence in the Asia Pacific region is through its "Look East Policy". New Delhi is not only a full dialogue partner of ASEAN and a member of the ASEAN Regional Forum (ARF), taking an active role in the security dialogue of the region, it is now also a part of summit diplomacy in the form of an ASEAN-India summit in parallel with the ASEAN Plus Three (Japan, China and South Korea) summit. Trade and investment relations have dramatically improved in recent years, offering India a certain status as a major power. Unfortunately the volume does not deal with India's growing clout in the Asia Pacific: this is one of the major shortcomings of the book. The other shortcoming is the book's basically Western perspective on India's foreign and security policies. The only exceptions are Kumaraswamy's and Sunila Kale's essays. Ganguly, who is an Indian in origin but an American citizen, tries to bridge the gap somewhat. The volume, however, is a valuable edition to the growing literature on India as an emerging power.

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Media and Politics in Pacific Asia. **By Duncan McCargo.** London & New York: RoutledgeCurzon, 2003. 185 pp.

Duncan McCargo's book *Media and Politics in Pacific Asia* provides insights into the role of the media in the politics of Asia, with an in-depth examination in particular of Japan, Indonesia, Hong Kong, and Thailand. His findings are based on fieldwork in these locales between 1992 and 1999, through funding provided by entities in Great Britain and Asia. In addition to offering accounts pertaining to these four countries, McCargo draws out comparative examples associated with Burma, Malaysia, and the Philippines. McCargo examined print, radio, television, and electronic media accounts, and both domestic and international media outlets.

The book would be of utmost interest to scholars investigating media influences in Asia, from both media and political science perspectives, as well as those pursuing cultural studies or historical research. It presents intriguing accounts of relative control and the tension between media elements and political factions as a constant process of negotiation, with outcomes not always in favour of societal interests.

McCargo's perspective is that media institutions are political actors in Asia, and as such they can assume various political roles which may be influential in the democratic transition of Asian countries or may work counter to that goal. The author views media institutions in Asia as being capable of instigating political stability, restraint, and change.

The author examines pressures on Asian media institutions from a range of state and non-state sources. He looks at specific media related issues such as ownership, media freedom, partnership, profitability, regulation, and the public interest.

The first chapter sets the perspective that the book will follow. This chapter offers an important discussion about the elements that are involved in Asian media's coverage of politics and the interplay of those elements. He quickly points to the fact that the majority of research on the media and politics emanates from the West, the findings of which, he claims, are of limited relevance to non-Western countries. He discusses the uniqueness of Asian cultures in this context and offers compelling arguments with case studies. Throughout the book, McCargo provides necessary contextual information to enable the reader to assess issues discussed.

The book's second chapter focuses on the actions of the media during times of crisis, in particular during democratic transitions in Southeast Asia. Here he examines the role the media played in the case

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of three countries: the Philippines (in the ousting of Ferdinand Marcos), Thailand (the fall of the Suchinda Kraprayoon government), and Indonesia (the downfall of the Suharto regime). The author also describes in this chapter the role of the media in failed transitions, specifically in Burma and Malaysia. McCargo takes the position that "the media do more than simply describe and interpret unfolding crises ... the media become actively involved in shaping political outcomes" (p. 48).

Chapters 3–6 provide in-depth analyses of four case studies in which the media played particularly interesting roles. First, the author examines the case of Japan, where after 38 years of rule, the Liberal Democratic Party lost power to a rival coalition in 1993. The author argues that the case of Japan during this time is relevant to countries in the region. In his analysis, McCargo examines the Japanese media vis à vis political processes that were taking place, noting changing power relationships between the media and politicians and the content of political coverage.

Chapter 5 offers a very detailed examination of the interplay between media organizations and political elements in Hong Kong as the country moved from British to Chinese rule in 1997. As part of his analysis, the author talks about the rise of Hong Kong's Chinese language press and its questionable ethical standards. Integral to the author's analysis is the issue of potential censorship as a function of the transition.

Chapters 4 and 6 focus on case studies relevant to Indonesia (the government's banning of three leading weekly publications and the fall of Suharto) and Thailand (the international media and domestic politics in four specific instances). As is the case with the other two chapters detailing events in Japan and Hong Kong, the author's historical account is interwoven with insights about the interplay between the press and politicians and their effects on one another.

The final chapter of the book offers a multitude of conclusions. One of the author's assertions is that his study of Asian media organizations and political forces has raised many questions and problems but no comprehensive answers. This is understandable, since as he points out, little systematic research has been done in this area. Second, the problems he confronts in his book are very complex and not amenable to simple solutions.

The author assists the reader from the beginning of the book by taking a particular perspective on the role of the media in politics and carrying it throughout the volume. The author offers rich examples that back up his assertions throughout the text, utilizing comparisons between countries and media types effectively. He makes good use of historical details and narrative to explain what roles the media organizations

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adopt. He is willing to take a critical view of both media organizations and political forces. The author incorporates citations of previous works to back up assertions he makes, and includes current research that is relevant to his study.

Structurally speaking, McCargo aids the reader by providing a preview for each chapter as well as conclusions which often are supplemented by bulleted information. He gives the reader useful headings as he moves from one subject to another. Stylistically, the text reads very smoothly and at a level that is clear but articulate. The presentations are thorough, well-organized, reasonably paced, sufficiently explained, and supported by arguments that are carefully developed. The author leaves the reader with much to consider, as well as a framework for viewing unfolding events in these countries as the press attempts to cover them.

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***The Power of Institutions: Political Architecture and Governance*. By Andrew MacIntyre.** Ithaca and London: Cornell University Press, 2003. 195 pp.

The Power of Institutions, by the Australian political scientist Andrew MacIntyre, is one of the latest books in the distinguished series in Cornell Studies in Political Economy under the editorship of Peter Katzenstein. The book grew out of the author's longstanding interest and research in political institutions, particularly in Asia. In broad terms, one could say that MacIntyre's purpose here is to explore the effects that the dispersal of governmental decision-making power can have on public policy, and he wants to explore these effects not in the advanced industrial democracies, on which much of the extant literature has focused, but in "the world of semi-democracies and non-democracies (pp. 2–3)". He argues that since institutions in developing countries are likely to be either highly centralized or very fragmented, they are especially "susceptible to problematic patterns of governance". In fact, countries with highly centralized decision-making power are likely to experience serious problems with policy volatility, while those with fragmented decision-making institutions will be prone to policy rigidity (pp. 8–9). He sets out to test this hypothesis by examining how the

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governments of Thailand, Malaysia, the Philippines, and Indonesia responded to the economic crisis of 1997–98.

The book is essentially based on four case studies of how and why the "political architecture" of the four countries affected their response to the economic crisis, but the case studies are masterfully integrated into a fascinating, truly comparative work that will be of interest to scholars in comparative politics and international relations. The first three chapters lay out clearly and concisely the theoretical framework of the enterprise, drawing on what research has shown on advanced industrial democracies and showing how these findings are helpful in elaborating a framework to investigate the effects of political architecture in developing countries. At the time of the economic crisis, Indonesia and Malaysia lay at the extreme of highly centralized structures for decision-making (either a single "veto" wielding player, as in the person of Suharto in Indonesia; or very few veto wielding players, as in the person of Mahathir together with UMNO in Malaysia), and should therefore have been susceptible to policy volatility in response to the crisis. Thailand lay at the opposite extreme of having a highly fragmented political architecture (with many veto wielding players) and should therefore have been susceptible to policy rigidity. The Philippines had a decentralized political architecture, but not as fragmented as Thailand, and therefore would have been expected to handle the economic crisis better than any of the other three countries.

Two chapters are then devoted to testing out the theoretical framework. Chapter 4 focuses on how the political architecture of the four countries affected policy-making in the economic crisis. As expected, highly centralized decision-making processes in Indonesia and Malaysia initially were beneficial in that the governments could react quickly to the crisis as it began to unfold in 1997. But this advantage of centralization was overcome in short order as the policies of both countries became especially volatile, subject to arbitrary, and quickly changing, decision-making by a small number of veto wielding players. Thailand's extreme of decentralization, with bickering among many veto wielding political parties in the governing coalition, had the effect of creating a virtual policy paralysis that persisted for some time, much to the disadvantage of Thailand in dealing with the serious effects of the economic crisis. As expected, the Philippines was best able to react to the crisis, with its more democratic institutions characterized by a moderate number of veto wielding players stimulating a greater willingness to compromise and to pull together to respond to the crisis in a rational manner.

It is significant, as MacIntyre shows in Chapter 5, the second major substantive chapter of the book, that the political architecture of the

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four countries, which had an effect on how they dealt with the economic crisis, also impacted upon the manner in which they dealt with the issue of reform of their political institutions in the wake of the crisis. Proponents of reform, as he points out, face two sets of difficulties: first, they must find a way to dislodge existing institutions; and second, they must create new ones to replace the discredited ones. In Thailand and the Philippines, discussions of the need for institutional reform had been going on for some time before the crisis, but the crisis had different results on the reform movement in both countries. In Thailand, the failure to deal effectively with the crisis ushered in sweeping reforms. In the Philippines, relative success in dealing with the crisis had the effect of laying to rest discussions that had been going on for some time of introducing significant institutional reforms, namely, of moving from a presidential to a parliamentary system. Malaysia provides a unique case, where the political architecture was not seriously challenged despite the fact that the volatility that characterized decision-making during the crisis was a serious problem. But there the "reform" was accomplished by an internal struggle for power in which dissenters were purged from positions of leadership. Indonesia, which had experienced the most extreme volatility of decision-making during the crisis, again lay at the extreme in terms of reform in that the economic crisis ushered in dramatic changes in its political architecture.

The Power of Institutions is a book of extremely high quality, and MacIntyre should be commended for executing it so well. The scholarship is superb throughout, and it demonstrates a good grasp of a broad range of theoretical and empirical research. Beyond that, it is a very well written book. Indeed, MacIntyre is a gifted writer with great powers of concentration and draws the reader into his arguments and analysis. He gets his points across clearly and concisely. Even those who will find fault with the theoretical underpinnings of the book, or question the focus on institutional configurations to explain policy formulation and outcomes (which MacIntyre himself concedes in his concluding remarks and assessment of his own work), will find that it is a pleasure to read this book.

The book will be of interest to a relatively broad community of scholars. It will, of course, be of interest to those who specialize in Southeast Asian politics inasmuch as it provides tremendous insight into the importance of political institutions for policy-making in a crisis situation. But beyond that, scholars in comparative politics in general will appreciate the highly sophisticated way in which MacIntyre developed his framework for analysis and carried it through to a successful conclusion. International relations scholars, especially those interested in international political economy, will find useful MacIntyre's

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discussion of how the political architecture of Malaysia, Indonesia, Thailand, and the Philippines impacted on policy choices and outcomes as the financial crisis of 1997–98 unfolded. The book is also likely to be of value as a teaching tool in a variety of courses at the graduate and advanced undergraduate levels in comparative politics, and, to some extent, international relations.

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REGIONAL OUTLOOK: Southeast Asia 2004-2005

edited by Russell Heng Hiang Khng and Denis Hew

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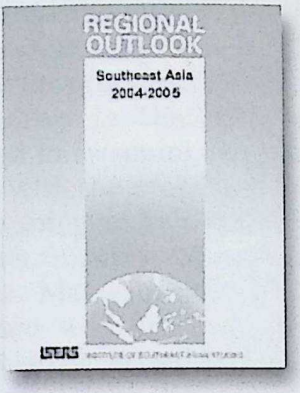

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2004 100 pages RO/04
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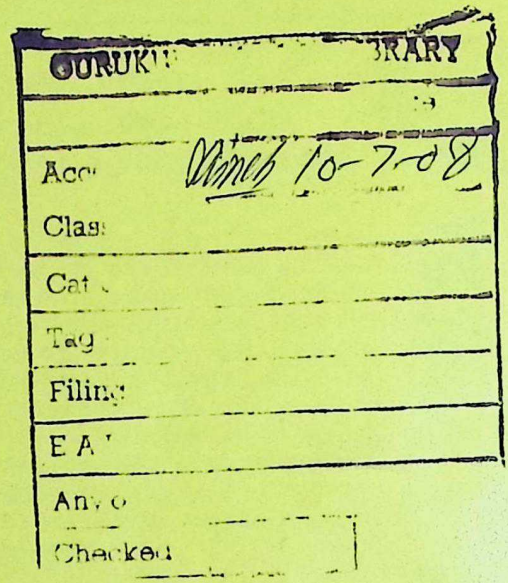

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